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With America at war against terror, and keen to build missile defences, Russia has an opportunity ... More on this week's lead article

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Politics this week

Nov 8th 2001
From The Economist print edition

Clash for civilisation

The **war against terrorism** continued on the military front with further heavy carpet bombing of Taliban front-line positions and claims of captured territory by the Northern Alliance. On the propaganda front, President George Bush accused Osama bin Laden and the al-Qaeda network of threatening civilisation by developing biological, chemical and even nuclear weapons.

See article: Relaunching the propaganda war

Britain's Tony Blair, back from a tour of the Middle East to shore up support in the region, offended the EU's smaller countries by at first inviting just the leaders of France and Germany to a dinner to discuss the world crisis. Eventually, the leaders of four other EU countries attended. Meanwhile, more European countries agreed to send troops to the ground war. Germany offered 4,000. Italy's parliament backed its government's offer of 2,700, despite wide public unease.

See article: Europe's small countries versus its big ones

Bloomberg news

Election day brought **surprises in America**. In New York, Michael Bloomberg, a media mogul, narrowly beat Mark Green to give the city its second Republican mayor in a row, after Rudy Giuliani.

Reuters

See article: New York's new mayor

In **New Jersey**, Jim McGreevey, a Democrat, won the governorship from a Republican by a landslide. Mark Warner did the same, though more narrowly, in **Virginia**.

See article: Elections in New Jersey and Virginia

In **Detroit**, Kwame Kilpatrick, a football player turned politician, will succeed Dennis Archer as mayor. Atlanta elected its first female mayor, Shirley Franklin. In both **Miami** (where Joe Carollo, a famous protector of Elian Gonzalez, lost) and in **Houston**, the mayor's races went to run-offs later in the month.

Terror in Europe

Terrorists hit Spain and Britain. A car bomb went off in Madrid, wounding some 90 people. Next morning gunmen murdered a magistrate in Bilbao. ETA's work, plainly. In Birmingham, a huge car bomb failed to go off. Probably the Real IRA's work, said police.

EPA

In **France**, a former Socialist finance minister, Dominique Strauss-Kahn, was cleared of charges of financial jiggery-pokery in his pre-ministerial days. Good news, on the whole, for his friend Lionel Jospin, the prime minister.

See article: Cynicism about French justice

A strike against strikes?

In a move to forestall a **general strike** in Pakistan, called to protest against the American bombing of Afghanistan, the government ordered Qazi Hussain Ahmed, the leader of an Islamic political party, to be detained in a government rest-house for a month.

At least 115 people died in the **Philippines** in floods and storm damage caused by a typhoon called Lingling.

Despite appeals by the United States for a period of calm in **Kashmir**, there was heavy firing across the "line of control" that divides the Indian and Pakistani sectors of the state. In the Indian sector 45 people died in clashes between the army and separatist guerrillas.

Indonesia asked a meeting of its main lenders, led by the World Bank, for another $3 billion-$3.5 billion over the next year.

Fair election

Nicaragua's presidential election was marked by a high turnout and none of the expected irregularities. Enrique Bolaños, a 73-year-old businessman and candidate of the ruling Liberal party, easily defeated Daniel Ortega, the Sandinist leader. Sandinist supporters blamed their defeat partly on comments by American officials linking Mr Ortega with terrorism.

See article: Nicaragua's surprising election

Argentina announced details of a proposed debt swap by which it hopes to cut interest payments by at least $4 billion next year. Two credit-rating agencies said that the proposal amounted to a selective default. Meanwhile, the government said it had reached an agreement with some (but not all) provincial governors on cutting revenue transfers from the centre.

Hurricane Michelle swept over **Cuba**, killing five people and causing extensive damage. The death toll was reduced by a government operation that saw 800,000 people evacuated before the storm hit the island.

Reuters

War averted

Rwanda and **Uganda** seemed on the edge of war. But after a cordial meeting in London, sponsored by the British government, the presidents of the two countries appeared to step back from the brink.

See article: Uganda and Rwanda

Zimbabwe's government ordered the closure of the *Daily News*, an independent and much-harassed

newspaper, on the pretext that its directors had broken investment laws. The land grab of white-owned farms continued.

Days after a new power-sharing government in **Burundi** came into force, it was put at risk by Hutu rebel attacks and ambushes that killed 35 people.

Government troops in the **Central African Republic** routed the supporters of François Bozize, a general who had seized part of the capital after being accused of treason.

Israel continued its staggered withdrawal from the West Bank towns it had reoccupied; its troops now remain in Jenin and Tulkarm. Ariel Sharon, who had cancelled his planned trip to Washington, DC, was said to be working on a new peace plan with his foreign minister, Shimon Peres. Meanwhile, the violence and killing, mainly of Palestinians, continued in the West Bank.

Abdelaziz Bouteflika was among those who had talks with George Bush. **Algeria's** president hopes that America will recognise his country not only as a fellow fighter against terrorism but as an important supplier of energy resources.

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Business this week

Nov 8th 2001
From The Economist print edition

No-fly zone

Reuters

Sabena, Belgium's flag-carrier, suspended all flights and filed for bankruptcy after potential saviours, including Virgin Express, backed off. EU rules prevent Belgium's government, which owns 50.5% of Sabena, from bailing out the ailing airline; all of its 12,000 employees face the chop. Last month Swissair, owner of the rest of Sabena, also went bust.

British Airways announced that pre-tax profits were down by 70% in the six months to the end of September over the year before, to £45m ($64m). It said that losses for the full year would be "significant". The airline has suffered heavily from the decline in transatlantic travel. On a brighter note, BA and Air France reintroduced the Concorde service to New York, over a year after one of the supersonic jets crashed outside Paris.

See article: Ready for take-off

Ryanair proved that airlines could still make handsome profits despite the industry's travails. Profits in the half year to the end of September were up 39% on a year ago, to *euro*88m ($79m). Ryanair also announced that it would add a second hub in continental Europe, in the hope of replicating the success of its first, in Charleroi, Belgium.

Emirates, a Dubai-based airline, also shrugged off the current woes of the airline industry. It placed orders for aircraft worth $15 billion with both Airbus Industrie and Boeing.

See article: Looking bold and talking big

Microsoft option

Microsoft agreed to settle its long-running antitrust battle with America's Justice Department, emerging largely unscathed despite an earlier ruling that the software giant was a "predatory monopolist". Computer makers will be allowed to sell PCs with extra software on top of the Windows operating system; and Microsoft will give more information about the innards of its software. Nine of the 18 states that jointly sued Microsoft also settled, but the others, which had hoped to impose a harsher penalty on the firm, seem determined to pursue the case.

See article: An unsettling settlement

Enron, the world's biggest energy trading company, has shrunk further; its shares hit a ten-year low as unorthodox financial dealings and possible huge liabilities frightened investors away from the company. Dynegy, its bitter rival, was among those circling the beleaguered firm with possible bids for part or all of Enron up their sleeves.

WPP, a British advertising agency, decided to abandon its attempts to pull out of a deal to buy **Tempus**, a media-buying firm, through the appeals system of Britain's takeover panel. WPP's £437m ($637m) bid had looked high even before a world advertising slump, but the panel ruled that the effects of September 11th did not justify backing out of the deal.

See article: Adland's shrewd and lucky baron

Hewlett-Packard's planned purchase of **Compaq Computer** is running into more trouble. The Hewlett family, which controls some 5% of HP's shares, is opposed to the $21 billion deal. The family, with an influence that far exceeds its slice of the company, is reluctant to get further involved in the low-profit PC business. The fate of the deal may now hinge on the Packard foundation, which controls 10% of the shares.

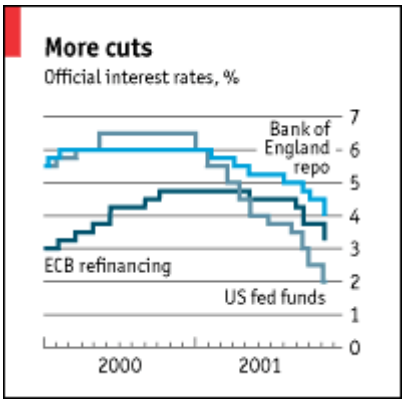
ExxonMobil won an appeals-court ruling that a $5 billion punitive damages award for the *Exxon Valdez* oil spill in 1989, made by a jury, was excessive. The award against the giant oil company is now likely to be reduced.

Three big German banks, **Commerzbank**, **Deutsche Bank** and **Dresdner Bank**,merged their mortgage businesses to cut costs and boost profitability. The new company will retain the name of Deutsche's mortgage unit, Eurohypo, to encapsulate its Europewide ambitions.

See article: Portable property

Cuts all round

America's Federal Reserve cut **interest rates** by half a percentage point to 2%, the lowest since 1961, and hinted that further cuts could come. The cut accompanied further dire news of the economy. Unemployment hit 5.4% as 415,000 non-agricultural jobs were cut in October, the worst fall since 1980. On a more positive note, productivity growth remains surprisingly good: it rose by 1.8% in the year to the third quarter.



See article: Lengthening shadows

The **European Central Bank** cut rates by a half-point to 3.25%, to give a boost to the ailing euro-area economies. And the Bank of England cut rates, also by a half-point.

The **World Economic Forum**, a talking-shop for the world's leading businessmen and politicians, is abandoning Davos in Switzerland as the venue for next year's annual jamboree. Security costs at the remote ski resort are thought to be too high. Instead, the forum will meet in New York, though it insists it will return to Davos in future. Davos junkies who are sick of travelling to the Alps every January may suggest otherwise.

A report from the International Securities Markets Association alleged that an unnamed country, widely supposed to be **Italy**, had used complex swaps contracts to obscure the true extent of its budget deficit in 1997 so as to qualify for Europe's single currency. The report mysteriously disappeared from the web after Italy denied it.

See article: Italian fiddle?

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Russia and America

Suddenly, such good neighbours

Nov 8th 2001
From The Economist print edition

With America at war against terror, and keen to build missile defences, Russia has an opportunity

IT COULD almost be old times. America's president meets his Russian counterpart for a summit to discuss missile defences, tallies of nuclear warheads and the need to avoid unnerving instability between the world's two biggest nuclear powers. But there the cold-war similarities end. As George Bush prepares to show Vladimir Putin round his Texas ranch, their officials are totting up not how many missiles are enough to keep the peace, but how few. It is more than a decade since the nuclear rivalry between America and Russia threatened the world with Armageddon. Across-the-fence relations have been much more neighbourly for decade. All the same, there is a whiff of history about next week's encounter.

If all goes well, the summit centrepiece will be a new set of strategic understandings better suited to the post-cold-war world. One could be an agreement that the 1972 Anti-Ballistic Missile treaty, which banned most missile defences so as to keep either Russians or Americans from believing they could strike first and be safe from counter-attack, should not now inhibit the testing of defences against smaller missile threats from places like North Korea, Iraq or Iran. Another might cut each side's long-range nuclear arsenal to perhaps 2,000 or fewer (compared with 3,500 or so under the yet-to-be-implemented Start-2 strategic-arms treaty). That is especially important to Russia, which can barely afford the weapons it has. Yet it is Mr Putin's apparent readiness, by standing four-square with Mr Bush in the anti-terror campaign, to signal an end to Russia's decade-long sulk over its loss of influence in the world that makes this a potentially history-making summit.

China next?

Mr Bush was anyway determined to press on with what would eventually have been treaty-busting missile-defence tests. Doing so without picking a fight with Russia reduces the diplomatic friction with America's allies in Europe. It also blunts the more determined opposition from China, which, unlike Russia, fears for the usefulness of its smaller nuclear deterrent force and worries that regional anti-missile defences could someday be used to protect Taiwan. China has worked hard to build a rejectionist front with Russia against America. But if Russia breaks ranks, China may be persuaded to talk too.

It was Mr Putin's reaction to the September terrorist assaults on America, standing down his soldiers even as America's went on red alert, that Mr Bush says persuaded him that Mr Putin had finally understood the cold war was over and that a new strategic bargain could be had. But Russia is helping in other ways too. Overriding the instincts of his generals and diplomats, Mr Putin has offered over-flight rights to American military aircraft, provided intelligence help, and encouraged Tajikistan and Uzbekistan, two neighbours of Taliban-ruled Afghanistan, to allow the use of bases on their territory.

The question for Mr Bush is how far he wants to make use of the better relations that Mr Putin is offering. Some of his advisers have wanted to press ahead on missile defences regardless. They scorned the Clinton administration's efforts at “partnership” with Russia; in the first months of Mr Bush's presidency Russia's diplomats were pushed further down the receiving line. Mr Bush had started out trying to cut the money America spends in Russia to prevent the leakage of materials and expertise from its sprawling complex of nuclear, chemical and biological weapons. Given the new dangers of such weapons in terrorist

hands, it would be wiser now to step up these efforts—increasing security at storage sites, improving the ability to detect theft, finding safe ways to dispose of dangerous stockpiles, finding useful work for former weapons scientists—not pare them back. And for safety's sake, monitorable ways need to be found to dismantle surplus nuclear warheads, from any new arms-cutting deal at the summit, as well as from earlier agreements on both long- and short-range weapons.

Better Russian-American ties offer Mr Bush more such opportunities than he may care to take. But for Russia this is a chance to recover lost respect and influence in the world. Early post-cold-war hopes for a “strategic partnership” with the West foundered on old thinking in the Kremlin that still weighed up the world in spheres of influence. Russia's response to NATO's decision to take in the first recruits from Eastern Europe, and to western intervention in Kosovo to end Serb ethnic cleansing, was to toss as many spanners in western works as possible, and to seek friends instead among awkward regimes, such as Iraq, which continues to flout UN disarmament resolutions, and Myanmar. Asked to set aside the one flattering measure of Russia's old worth—the raft of cold-war treaties, including the ABM treaty, with America—the instinct was to dig in its heels.

Mr Putin is not about to drop all Russia's old friends, but he has a clearer-eyed assessment of where its real interests lie. He knows it is not western ill-will, but his country's own political and economic weakness, that has reduced Russia's standing. The stand-off over limited missile defences, which anyway do not threaten Russia's security, had been getting in the way of his other foreign-policy goals: to put Russia back in the diplomatic mainstream, to win a bigger voice in European security matters, and above all to build up its economy. The anti-terrorism campaign gives Mr Putin an unexpected diplomatic opening to show that Russia is still a country worth doing business with. His other two goals will be harder to achieve.

A new agenda for Russia

Russia has long made a big play of putting its name to the human-rights rules and codes of conduct of organisations like the Council of Europe and the Organisation for Security and Co-operation in Europe, only to flout them repeatedly in the brutal fighting in Chechnya and by meddling in conflicts across its own borders: in Georgia (see Charlemagne), in Moldova and in the dispute between Armenia and Azerbaijan over Nagorno-Karabakh. If Russia wants a more constructive voice in European security, it could show earnest by doing more to resolve these conflicts rather than stirring them up. Similarly, Russia has in the past leaned hard on the Balts—by refusing to ratify new borders, for example—and others to deter them from closer contacts with the West. Mr Putin at last seems to have recognised that NATO is the least of the threats he faces, that he can anyway have no veto over who joins the alliance nor over America's defences, and that heavy-handedness has merely lengthened the queue to join.

Better working relations between NATO and Russia now seem in prospect, though frictions are bound to continue. But it is other clubs, such as the World Trade Organisation, that Mr Putin needs to have in his sights. He has already said Russia would like to join the WTO. The difficulty will be in getting Russia's mafia-like economy in any sort of shape to do so.

So far Russia has bumped along, selling weapons, oil and gas. Mr Putin wants to change that. Oil and gas will remain important: Russia may find itself increasingly attractive as a non-OPEC supplier and, 20 years from now, as the European Union expands, Russia could end up controlling the taps of well over half of Europe's gas. Yet Mr Putin wants Russia to be more than a giant pumping station. He wants it to have a seat alongside the richer, industrialised nations. He has started to speed up economic reform at home, but it is still galling to Russians that China pulls in vastly more foreign investment each year. Prospective WTO membership could be a useful tool, as it has been in China, to force the better business practices and rule of law that would make Russia a place worth investing in.

All this may seem a long way from Mr Bush's ranch in Crawford, Texas. But Mr Putin has a vision of Russia's future that is different from its past. Mr Bush has started to see that. Now Mr Putin has to persuade his countrymen of it too.

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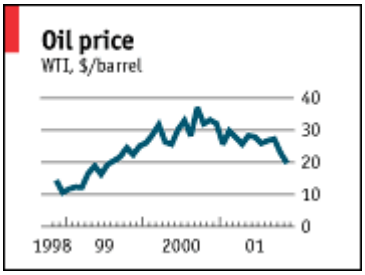
The world economy

Cheaper oil, cheaper money, better news?

Nov 8th 2001
From The Economist print edition

Economics promises to pose some tricky choices for the coalition



THE politics of keeping together the coalition against terrorism are tricky, even between America and Europe, let alone between America and the Islamic world. So it is a good thing that their economic interests are rather more easily aligned. Well, not exactly. In fact there is an awkward possibility that economics may prove divisive.

That may not be the first thought that comes to mind in a week when interest rates were being cut, more or less in unison, on both sides of the Atlantic. America's Federal Reserve Board cut its main short-term rates by half a percentage point to 2%, its tenth cut this year, bringing the rate to its lowest point since 1961. The Bank of England and the European Central Bank then also cut their own rates, in a similar effort to pep up demand in their slowing economies and to exploit the current lack of inflationary pressures. Even so, during the next few months, transatlantic rows over economic growth promise to become noisier.

The reason why is rooted in expectations. After many months of denying a gathering reality, Americans are now reconciled to the idea that their economy is in, or about to be in, recession. The atrocities of September 11th are bound to make consumers and companies hold back some of their spending, in part just to wait and see what happens but also to try to reduce the debts they had built up during the recent boom. The American debate centres on how deep the recession might be and how long it will last, rather than on whether it will happen. The answer to the first, most probably, is quite deep, given the size of the accumulated debts and the speed with which unemployment is now rising. The answer to the second is harder to guess. The average length of downturns in America since 1945 has been 11 months. When consumer and corporate confidence are so dependent on the progress of the war and on whether there are further terror attacks, that average offers neither comfort nor guidance (see article).

Europe, though, may yet escape a recession. Indeed, despite a sharp rise in German unemployment in October (to a standardised rate of 8% of the workforce, compared with America's 5.4%) and falling confidence ratings across much of the euro area, governments and the European Central Bank still expect the region to continue growing this year and next. That is as it should be: having had neither America's boom-bust cycle nor the September terror attacks, Western Europe ought to have a good chance of being one of the few beacons of economic light in a gloomy world. But not as bright a beacon as it might be: the ECB has been famously reluctant to cut interest rates this year, and the fiscal stances of the 12 euro members are constrained by the so-called stability pact.

Moderate growth, if it is achieved, will not be a bad outcome for Europe. But it will not be a helpful one for its trading partners, most notably America. Frustration is bound to grow at Europe's refusal to do much to stimulate demand. Europeans say their monetary modesty and fiscal prudence are needed to ensure “stability”. But if stability just means sloth, in a world where inflation is not a threat and demand is short, then Europe's inaction will come to look irresponsible.

Oil and its dangers

Next week, attention will shift to two international meetings: a large one, in Qatar, which brings together all the 142 members of the World Trade Organisation in the hope of launching a new round of trade liberalisation; and a small one, in Vienna, which will assemble the oil producers of OPEC and which will hope to cut oil output and to raise that liquid's price (see article). If either Europe or America, or both, refuse at the WTO meeting to allow trade in agriculture or textiles to become freer, then the chances of a

transatlantic falling-out will be high, as will be the chance of a row with poorer countries. Oil, though, carries bigger risks.

Normally, wars in the Middle East have been associated with spikes in the oil price, because of actual or feared disruptions to the supplies from the world's biggest oil reserves. Since September 11th, however, the price has fallen well below the OPEC cartel's preferred band of between $22 and $28 a barrel. That is good news for oil consumers, arising out of bad: the biggest reason why prices have dropped below $20, even as OPEC plans production cuts, is that the world economy is weak and demand is expected to sag further. In time though, along with cheaper money, cheap oil ought to be one of the things that help bring recovery.

It would indeed be helpful. This silver lining brings with it another possible cloud, however. The trouble with the oil market is that it is volatile, because the cartel does not control all the world's production and cannot even keep its own members from cheating on quotas. Non-OPEC oil output is rising, and so far the main countries involved—Russia, Mexico and Norway—have been loth to co-operate in limiting production. So, far from just slithering benevolently, the oil price could collapse, even to below the $10 reached in 1998. That in turn would cause squeals of pain in the Middle East, especially in Saudi Arabia, whose then-cash-strapped government would be readily blamed by extremists for falling victim to the West. A steadier outcome, with oil cheap but not at giveaway prices, would be a better option for the coalition. But achieving that could prove as hard as finding Osama bin Laden.

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Microsoft

A lucky escape

Nov 8th 2001
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Events have conspired to save Microsoft's bacon—so far

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THE facts of the Microsoft case have not changed since the world's largest software company was found guilty of acting as a predatory monopolist in April 2000. Microsoft was and remains guilty of illegally exploiting its dominant Windows operating system to force its way into other markets. But the world has changed in many other ways which have tilted the legal playing-field in Microsoft's favour. Hence this week's remarkably lenient settlement agreement with most (but not all) of the company's legal foes in America.

At one stage, Microsoft faced the prospect of being split in two as punishment for its behaviour. Instead, it has now agreed to a bundle of restrictions on its conduct. Its settlement with the Department of Justice, and with nine of the 18 states that were co-plaintiffs in the case, will allow PC makers to disable some bits of Windows, and replace them with alternatives made by other firms. Microsoft will also have to reveal more about the innards of its software, to ensure that it works smoothly with programs written by others. Its behaviour will be monitored by a secretive three-man committee of experts, one of them chosen by Microsoft. Yet none of this will make much difference (see article).

Microsoft's first lucky break came with the election of George Bush, who was always expected to be less eager about prosecuting one of America's largest and most successful companies. Then in January it emerged that the judge who heard the case, Thomas Penfield Jackson, had breached protocol by speaking to reporters during and after the trial; at one stage he likened Bill Gates, Microsoft's chairman, to Napoleon. When the appeals court considered Judge Jackson's verdict in February, it strongly criticised his conduct, and cast doubt on many of his conclusions. The appeals-court ruling in June duly upheld the ruling that Microsoft was a monopolist, but it rejected Judge Jackson's remedy of breaking up the company. A new judge was appointed and, in line with the new administration's less interventionist instincts, urged the parties to settle.

Perhaps surprisingly, the worsening economic climate has helped too. With PC sales stagnating, the computer industry has been desperately hoping that the launch of a new version of Microsoft's Windows operating system, Windows XP, would boost its fortunes. This made arguing for a delay to Windows XP harder to justify, even though Microsoft's opponents claimed that it represented yet another example of the company's monopolistic tendencies.

In early September, the Justice Department formally announced that it would no longer be seeking a break-up and would also drop the central plank of the case: whether Microsoft should be allowed to “tie” other programs to Windows. This retreat signalled a strong desire to settle. But two of the most hard-line states, New York and California, said they would continue to press for “stringent remedies”. Then came September 11th. Suddenly, America's priorities changed, and pursuing Microsoft through the courts looked irrelevant, even unpatriotic. Anxious to get the case out of the way as quickly as possible, the Justice Department agreed a settlement with Microsoft on November 2nd. Nine states, including New York, signed up to a similar settlement on November 6th.

The spots don't change

The Justice Department's retreat, which has pulled the rug from under the states, is deeply regrettable. Continuing lawsuits by the nine remaining states are unlikely to amount to more than valiant rearguard action. But although the settlement itself will have little effect on Microsoft, the trial has not been a complete failure. Having had its dirty linen washing in public, Microsoft may find it harder to get up to its old tricks in future. Its recent attempt to deny users of non-Microsoft browsers access to its MSN website led to howls of protests, forcing a rapid retreat. Similarly, Microsoft's attempts to extend its Windows monopoly into new areas, such as “web services”, instant messaging and the distribution of audio and video files, are being closely watched by rivals. Most important, Microsoft is now widely distrusted, which could prove a stumbling-block to plans to promote its Passport and .NET services, which it hopes will become the Internet's main repository for personal information.

Microsoft claims to have changed its ways, though its deeds have yet to match its words. The onus is now on it to alter its behaviour voluntarily. But it is hard to imagine it doing so; it has not, after all, admitted any wrongdoing. The company has, however, been declared a monopoly, which makes it vulnerable to further legal action in future. The EU's antitrust investigation is also gathering momentum (see article). Microsoft has seen off its foes for the time being. But it is unlikely to be so lucky next time around.

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Letters

Nov 8th 2001
From The Economist print edition

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Planning ahead

SIR – As a former head of Shell's scenario-planning team, I would like to comment on your piece on the subject ("The next big surprise", October 13th). No scenario writer would pretend to be able to forecast specific events such as those of September 11th. But scenarios have talked about some of the background trends and repercussions, such as recession and Islamic fundamentalism. For example, any good set of scenarios of the past few years would have one scenario about the bursting of the dotcom boom and a global recession. And every scenario exercise that I have seen relating to any activity remotely concerned with the Middle East has had Islam and Islamic fundamentalism at its core.

Scenario planning is not primarily about forecasting the future. It is designed to help in the construction and testing of specific strategies, which it can do in three ways. First, by educating decision makers about uncertainty in the world and helping them to understand and challenge their own presumptions. Second, scenarios can be used in a formal way as a starting point for strategy development. Third, a conscious use of scenarios helps managers to adjust course in the light of events. For example, if the events and repercussions of September 11th are important to a company or organisation (and outside the realm of previously considered scenarios) then a rethink of strategy is called for. The better the scenarios, the less frequent these surprises will be and the more successful the strategy.

Roger Rainbow
Strategic planning adviser, Control Risks Group
London

Scotland the grave

SIR – In your article on the Scottish diaspora you fail to mention a factor that this Scottish-American found on his trip to Scotland ("Keep your kilt to yourself", October 20th). The Scotsmen I met not only seemed not to care that I was obviously an American of Scottish descent but also did not appear too inclined to get involved in the tourist trade at all. I contrast that with the stories that my Irish-American friends have of warm welcomes, as if all the Irish were their long lost cousins. Maybe, if Scottish-Americans returned home with similar stories of sociability, the Scots, like the Irish, would need no further marketing.

William Ross
Stow, Massachusetts

SIR – An amusing caricature of a fully kilted person playing the bagpipes on a table in a public place accompanies your article. How close to reality this is. Every large business or government dinner in Toronto, the most ethnically diverse of all North American cities, is preceded by a bagpiper invariably playing "Scotland the Brave". Presumably, few of the multi-racial Canadian audience have the faintest idea what the tune represents. Inexplicably, they seem to love it and nobody objects to the ghastly racket.

James Hunter
Toronto

Management education

SIR – A rumour, by definition, is an unreliable source of information. Yet your article on MBA programmes relies on one to spread misinformation about the placement record of the Harvard Business School class of 2001 ("Back to business school", October 27th). I would like to set the record straight.

No one on this campus or elsewhere has tracked the career paths of the nearly 900 students of the class of 2001 since they left here last spring. But the facts are that each of them received 2.1 job offers on average, and some 95% had accepted a position by or shortly after graduation with a median total compensation of $140,000. The cycles of the economy notwithstanding, the demand for Harvard Business School graduates has remained consistently high. To include our most recent alumni in a general lament for the class of 2001 is as inaccurate as it is misleading.

W. Carl Kester
Senior associate dean and chair of the MBA programme
Harvard Business School
Boston

Unsafe bet

SIR – You conclude that the chance for peace in Northern Ireland should be taken by citing Pascal's "wager" ("I Renounce Arms", October 27th). However, the wager is commonly used in modern-day logic and statistics courses as a famous example of faulty reasoning—chiefly for its use of equal probabilities for each possibility, though there are several other problems with it including the fact that it could be used as proof for any god. In short, we must hope that the peace process in Northern Ireland fares somewhat better than Pascal's wager would in Las Vegas.

Geoffrey Costello
Scottsdale, Arizona

Japan's financial regulation

SIR – You appear to misunderstand the policies of Japan's Financial Services Agency ("Head in sand", October 20th). It is also surprising that *The Economist* bases an article on unfounded rumours and gossip. You suggest that the FSA may have put pressure on Dai-Ichi Kangyo Bank to extend its credit line to Mycal and that the FSA wanted to keep Mycal alive because it had let banks put the retailer in the safest category of problem loans. This is absolutely untrue. Since its establishment in June 1998, the FSA has practised the supervision of the financial industry based on fair and transparent rules. The FSA strongly focuses on market discipline and the self-responsibility of market participants. The FSA does not interfere in the individual lending decisions of financial institutions unless they are in clear breach of laws or regulations.

Also, you suggest that the FSA's top management is intent on hiding the true picture of the non-performing-loan problem. Such an allegation completely ignores the long list of measures taken recently to improve the disclosure and mark-to-market accounting of banks, and the strengthening of FSA inspections. The minister for financial services and the commissioner of the FSA always maintain intensive and close communication with FSA officials. Although the inspection function has to be kept independent from the minister and commissioner, all the necessary information, including inspection results after completion, has been reported to them in a timely and appropriate manner.

Finally, Japan's prime minister, Junichiro Koizumi, reconfirmed the government's resolution to normalise the problem of non-performing loans by the end of the 2004 fiscal year at the latest. The FSA is determined to implement the various reform measures included in the prime minister's package, and is actively doing so.

Takeshi Uera
Director, Office of Public Relations, FSA
Tokyo

Flight of fancy

SIR – On the selection of a site for Mexico city's new airport you say that its current airport operated 21m flights in 2000 ("Time flies", October 27th). That averages at over 57,000 flights a day, or one every two-thirds of a second. I'll bet the folks at Heathrow are saying "ay caramba".

John Vermilye
Windermere, Florida

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The battle for hearts and minds

Relaunching the propaganda war

Nov 8th 2001 | WASHINGTON, DC
From The Economist print edition

AP

America has been slow to engage with Muslim opinion. Now it is at least trying

Get article background

"HOW do I respond when I see that in some Islamic countries there is a vitriolic hatred of America? I'll tell you how I respond: I'm amazed. I'm amazed that there is such misunderstanding of what our country is about. We've got to do a better job of making our case."

That was George Bush on October 11th, a month after the terrorist attacks. Another month on, he should still be amazed. What Tony Blair, Britain's prime minister, calls the "gulf of misunderstanding" has widened—and only now is America beginning to do a better job of making its case.

In terms of both diplomacy and "public diplomacy" (which is what Americans call propaganda), this week was intended to be the busiest since the immediate aftermath of the September attacks. An orderly queue of visiting dignitaries formed outside the White House, the president shaking hands with the leaders or foreign ministers of Britain, France, Pakistan, India and Algeria. Mr Bush scheduled more big set-piece speeches in the space of the week than in the whole of the previous month—warning a security summit of East European leaders in Warsaw that Osama bin Laden would try to get nuclear weapons if he could, preparing (as *The Economist* went to press) for only his third televised address to the nation since the attacks, and looking ahead to his first speech to the United Nations, this weekend. Bringing up the rear, Mr Blair hosted a mini-summit of fellow European Union leaders in London before travelling to Washington.

All this is designed to rally support for the war. The administration aims to increase pressure on allies to offer more than sympathy, while reassuring Americans that the administration knows what it is doing. The public does need reassuring, even in the United States. There, concern focuses not on the war but on the confused official reaction to the anthrax outbreak. Support for military action remains sky-high. Beyond its own shores, however, America is losing the battle for hearts and minds. In Europe, support for the war is slipping. In the Middle East, opposition appears to be mounting.

In Britain, America's most reliable ally, support for war has fallen from around three-quarters to two-thirds. Some polls say four out of ten British Muslims think al-Qaeda's attacks are in some way justified; a handful have actually volunteered to fight with the Taliban. In France, support has dropped from two-thirds to half. In both Germany and Italy, well over half the population wants the attacks on Afghanistan to end. Beyond these numbers lies a qualitative change. Among those who support war, "Yes" (we support it) has become "Yes, but" (what about innocent civilians, humanitarian aid, Ramadan?).

In the Middle East, matters are worse because there are fewer doubts. Public opinion might be (generously) characterised as “No, but” (we oppose the war but disapprove of Osama bin Laden). Unlike in Europe, where opinion has been changing only recently, Arab opinion hardened early on. But the passage of time has led to a subtle and worrying development. The burden of proof has shifted: America is being asked to prove it is not waging war against Islam. The longer that charge is left to stand, the harder it will be to refute.

Some of this was no doubt inevitable. In other ways, America has only itself to blame. It has been unable to engage Islamic countries in a serious debate about how Mr bin Laden has abused the Koran for his own ends. It has not sent any Muslim Americans or Afghan-Americans to make its case. This is partly because groups close to the administration, such as the American Muslim Council and the Council on American Islamic Relations (CAIR) have been far more concerned about American criticism of Muslims than about acts of terror in the name of Islam (CAIR's founder said the trial of those found guilty of the 1993 attack on the World Trade centre was a “travesty of justice”).

The administration's broadcasts in Afghanistan have often been tone-deaf. “Attention Taliban. You are condemned. Did you know that?” Hardly compelling. America's cuts in its “public diplomacy” programme—it shut the United States Information Agency as a separate department—now seem unwise. America has almost no “cultural” organisations in the Middle East and its main broadcasting arm, Voice of America, has an audience share of 2% in the region. (VOA had closed most of its services in Afghan languages and only recently started them again.)

Above all, America's difficulties with the propaganda campaign cast doubt on its conduct of the war. Donald Rumsfeld, the defence secretary, told a news conference in India this week that the war would not take years. The week before, at a briefing in the Pentagon, he had compared the bombing of Afghanistan to that of Japan in the second world war, the point being that the latter had taken more than three years.

Does it matter?

If contradictions like that reflect real strategic uncertainties, the problem is not just one of ineffective propaganda. But if the underlying strategy is clear, does muddled presentation matter? After decades of official anti-American propaganda in the Arab states, the administration is unlikely to change Muslim opinion quickly, if at all. America will have to live with the hostility. And you might argue that the best, perhaps only, way of dealing with the resentment is to speak in the only language tyrannies understand: force. On this view, if America can overthrow the Taliban, capture Mr bin Laden and close down al-Qaeda's headquarters in Afghanistan, some of the bitterness might go out of the anti-American denunciations.

Also, when it comes to willingness to provide real military assistance, popular criticism has not yet proved an obstacle. Two-thirds of Germans want to stop the war, but Chancellor Gerhard Schröder's coalition has agreed to contribute 4,000 troops—the first such deployment since 1945. Italy has offered 3,000 troops.

These pragmatic arguments seem persuasive—for now. But America is not dealing with a fixed amount of popular Arab hostility: the level is rising fast. And though scepticism in Europe has not blocked the promise of troops up to now, elected governments will be swayed by popular opposition if it grows much more. America needs to make its case better.

It is belatedly starting to. For the first few weeks of the war, the Bush administration ignored the most important regional Arabic broadcasting system, al-Jazeera. Things began to improve when the national security adviser, defence secretary and chairman of the joint chiefs finally agreed to appear on the network. During their interviews—conducted in English, of course—they gave standard expositions of the line, barely engaging with Arab accusations. The real change came last weekend, when, in response to a new video broadside from Mr bin Laden, Christopher Ross, a former ambassador to Syria, immediately went on al-Jazeera to respond, this time in Arabic.

There were two other improvements. Mr Ross's appearance was the first evidence that new “instant response” communications offices were at work. America has set these up in Washington and London; within a week or so, it will have one in Islamabad too. These offices may or may not change minds, but their aim is right—to ensure that accusations against America do not go unanswered. The administration needs to mobilise hitherto-silent Muslim Americans to make its case.

For the first time, clear and specific rebuttals have been forthcoming from Arabs of Mr bin Laden's views, as well as of his actions. The general secretary of the Arab League, Amr Moussa, said, “Bin Laden does not speak in the name of Arabs and Muslims.” And Egypt's foreign minister, Ahmad Maher, said, “There is war between bin Laden and the whole world.” You could say that, like America's efforts to change minds, this is too little and too late. But it is at least a start.

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Landmines and cluster bombs

Nothing's perfect

Nov 8th 2001
From The Economist print edition

Good bombs, if only they didn't leave bomblets behind

Get article background

THE cluster bombs dropped by American aircraft over parts of Afghanistan may seriously hurt the enemy, but they can also cause unintended damage. The prospect that civilians can be blown up by cluster-bomb duds for years to come adds to uneasy feelings about the war. A growing number of organisations and politicians are calling for a moratorium on the use of these weapons.

The deadly devices release hundreds of little bombs that are supposed to explode on hitting the ground. But not all do so; and then, like landmines, they may kill, maim and make land inaccessible long after the fighting has stopped. The United Nations' Mine Action Co-ordination Centre (MACC) estimates that 7-11% of bomblets—about 20,000— failed to blow up during NATO's air campaign in Kosovo. All bombs may miss their targets, and a few may not explode. But cluster bomblets, by their sheer number, are likelier to kill and wound civilians, and make the post-war cleaning-up job even harder. Landmine Action, a British-based group, says that over 13m American bomblets were used in the 1991 Gulf war. The Pentagon has not said how many have been used in Afghanistan.

Cluster bombs, dropped from high up, and pushed by the wind, are less accurate than precision-aimed weapons. This probably explains why, on October 22nd, people in Shakar Qala, a village near Herat, found yellow cans on their streets. The bomblets, which look like soda-water cans, are unfortunately the same colour as the food packs being dropped by American aircraft. The Americans have been broadcasting radio messages instructing Afghans how to distinguish the bombs from the "*halal* and very nutritional" food drops—whose colour will soon be changed.

Bomblets are the same colour as food packs dropped from American aircraft

Soldiers point out that cluster bombs can do their legitimate job very efficiently, over an area the size of several football fields. The Pentagon says that, in some cases, big single-target bombs can cause even more unintended damage than cluster bombs. Short of sending in large numbers of ground troops, there are few alternatives in Afghanistan to making war with bombs, though the bombs should obviously be used as carefully as possible. Fuel-air explosives do not leave messy duds behind, but burn the lungs of anyone standing around. Unconfirmed reports say that these too are being used in Afghanistan.

The argument about cluster bombs adds to the angry complaints about landmines. After 20 years of war, Afghanistan is one of the most heavily mined countries in the world. Last year there were between 150 and 300 new landmine victims every month, half of them children. The Afghan who runs the orthopaedic centre of the International Committee of the Red Cross in Kabul lost both of his legs 18 years ago when his car hit a landmine just outside the city. The centre, one of the six the Red Crossoperates in Afghanistan, produces artificial limbs, crutches and wheelchairs, sometimes using tyres from old Soviet tanks.The list of patients was already long before September. It will soon get much longer.

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After the Taliban

Who should lead?

Nov 8th 2001 | FAISABAD AND ISLAMABAD
From The Economist print edition

Burhanuddin Rabbani, leader of the Northern Alliance, is not the answer. Zahir Shah, the former king, has drawbacks too

AP

Get article background

"HOW [the British] came to believe that the Afghans would accept an invasion by their Sikh enemies, or the rule of a ...'superannuated puppet' who had on more than one occasion been ejected from the country, remains unexplained." So writes Sir Martin Ewans, a British diplomat who served in Kabul, of the prelude to the Anglo-Afghan war of 1839-42 (his study, "Afghanistan: A New History", was published this summer). The decision to commit British troops to the venture was an even "worse error of judgment". Sure enough, the puppet was murdered and the British force obliterated by Afghanistan's redoubtable Pushtun tribesmen.

The British are fighting in Afghanistan again, this time as America's junior partners, and again are promoting the return of an aged former monarch, 87-year-old Zahir Shah. He has been ejected from the country just once, in a coup in 1973, and no Sikh regiments are involved in the current fighting. Still, the parallel is unnerving.

Plainly, a home-grown government would be best. But the Afghans, a fractious people, are unlikely to come up with one. There is no Afghan De Gaulle to lead the resistance and head the government after victory. The opposition consists of the Northern Alliance, itself an uneasy coalition of quarrelsome militias, and various leaders of the Pushtun ethnic group, the country's largest. The latter have no territory, few weapons and even less cohesion than the Northern Alliance.

Diplomatic efforts to help them find one continue. Lakhdar Brahimi, the United Nations' newly reappointed special envoy, has been visiting the neighbours. On November 6th in Tehran he endorsed the creation of a "broad-based government" representing all Afghanistan's ethnic groups. Mr Brahimi is expected to elaborate at a meeting of "six plus two" governments (those of the six neighbours plus the United States and Russia) in New York on November 11th. The United States this week appointed an ambassador to the Afghan opposition, James Dobbins, to help speed the effort.

Rival claims

The obstacles are formidable. Afghanistan has, in effect, two heads of state in waiting. The king, a Pushtun, is a unifier, acceptable in principle to Afghanistan's main groupings. But he controls neither armies nor territory, and is expected to act as no more than a symbol. Burhanuddin Rabbani, political leader of the opposition Northern Alliance, is internationally recognised as Afghanistan's president, but the alliance controls just a tenth of the country and consists of independent commanders who can barely be called allies. Most are not Pushtuns, so the main ethnic group rejects them as a government.

The way Mr Rabbani has ruled the sliver of territory under his control is anyway not much of an advertisement. Although less harsh than under the Taliban, life in Faisabad, his home city and the government's provisional capital, is still pretty miserable, especially for women. The local television station is under tight control. Outside the mosque and bazaar, there is little in the way of public life. Although girls can go to school, the curriculum is heavily tilted towards religious subjects. All women

wear the all-enveloping burqa and the range of jobs they can do is limited. Opium poppies flourish, despite an empty official ban.

Much of this is hardly Mr Rabbani's fault. Aid agencies that work with the government say it tries hard, especially in health and relief work. But even Mr Rabbani's own staff do not claim that he wields much clout. Relations with his military leaders have been chilly. As an Islamic scholar, he commands some respect, but the key to his political survival is probably that he does not attempt to lead too vigorously. In interviews, given in elegant classical Persian, he is a master of pious waffle, larded with criticism of other countries, especially Pakistan.

Specifics are few, though Mr Rabbani firmly rules out a monarchy, saying only that the exiled king, “like any other Afghan” can play a constructive role in the country's future if he wishes. The best thing about the Northern Alliance's leader may be that when the time comes for him to stand aside, this may not be too difficult for the peace-brokers to arrange.

The outside powers agree on the principle of a broad-based government. They accept the idea of some role for Zahir Shah, though there is less agreement on what it should be. Iran's government, which came to power by toppling a monarch, is reluctant to see one restored on its doorstep. A recent meeting between Russia's president, Vladimir Putin, and Mr Rabbani was widely interpreted as Russian encouragement to Mr Rabbani not to give way to the king. Both Russia and Iran seem to prefer Zahir Shah in a secondary role.

Pakistan, chief backer of the Taliban until September 11th and the most meddlesome neighbour in recent years, has trimmed its expectations. It remains the patron of Pushtuns, who account for about 15% of Pakistan's population, and would prefer a role for Taliban moderates in a future government, an idea that both Iran and Russia reject. But, says a senior diplomat, this is “not a deal breaker”. That could change if the emerging Afghan order began to seem threatening to Pakistan. Mr Putin's declaration this week that “the Indian voice must be heard” is certain to make Pakistan nervous. Nervousness could become alarm if the Northern Alliance becomes the main instrument for defeating the Taliban. Still, says the diplomat, this is a “better moment than we've ever had before” to achieve consensus among the neighbours.

Achieving consensus among Afghans will be more difficult. The Northern Alliance may not outlast the war. The main Tajik constituent, the Jamiat-i-Islami, seems to be split between Mr Rabbani, its political leader, and those who were close to the group's murdered general, Ahmed Shah Masoud, who are said to be more modern and keener on the king. The Pushtuns are even more hydra-headed. Their would-be leaders include Pir Syed Ahmad Gailani, a religious figure and former leader of the resistance to the Soviet occupation, thought to be backed by Pakistan. Hamid Karzai, a tribal leader close to the king, is the Americans' main hope in the south. American special forces reportedly plucked him from danger on November 5th, then let him go back to continue fomenting rebellion. (Abdul Haq, another commander, was recently captured and executed by the Taliban in a similar venture.) If some Taliban defect, room may have to be found for them in the new dispensation.

Early agreement on an arrangement to bring these factions together might hasten the fall of the Taliban, by giving potential opponents a clear alternative to back, and lessen the risk of rogue commanders exploiting territories they control, which helped the Taliban come to power in the first place. But what sort of arrangement?

A surfeit of notables

The one post-Taliban institution agreed upon so far, a 120-member “supreme council”, will not do. It is supposed to convene a larger gathering of tribal elders and other notables called a *loya jirga*, which in turn is to choose a transitional government. But Pushtuns object to the formula under which the king and the Northern Alliance each select half the members. They want to include more Pushtuns, in which case it will be too large to act as more than a chamber for debating decisions made by others. There is talk of a small executive body under the aegis of the king. This would lay the groundwork for a *loya jirga*, which would choose a transitional government that would in turn draft a constitution. The supreme council might then become a part of the *loya jirga*.

Outsiders will have to supply guidance, finance and, very likely, security, without imposing control. Foreign troops, coupled perhaps with Afghan forces, may well be required to maintain order in Kabul and other cities wrested from Taliban control. The international effort to fend off hunger will have to continue, and a new one to rebuild the economy must start. This, it is hoped, would reinforce the new

government's credibility and win allies among the Afghan people for what is likely to remain a long campaign to stamp out al-Qaeda and their Taliban sponsors.

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Commerce across the front line

Feeding the enemy

Nov 8th 2001 | JABAL SARAJ AND FARKHAR
From The Economist print edition

Some of the Taliban are profiting from trade with the other side

Get article background

Reuters

War takes its tolls

IT IS a funny old war when almost everything you can eat and buy, except for fresh produce, comes from behind enemy lines. But it does tell you something about the nature of the enemy. Jabal Saraj is 40 miles north of Kabul, and held by anti-Taliban forces. Its modest shops are groaning with food and goods of all types. Almost all of this comes either from Taliban territory or through it.

From Taliban territory itself come staples such as rice, wheat and sugar, plus sweets and rugs. From Iran come biscuits, soft drinks and cooking oil. From Pakistan come clothes, textiles, cigarettes and medicines. From China come tea, lanterns, radios and batteries.

With the only road out, over the Hindu Kush, now blocked by snow, the Taliban could starve Jabal Saraj and the nearby Panjsher Valley into submission. But many of them are making too much money to worry unduly about that.

According to shopkeepers and traders who commute back and forth to Kabul, the business works like this. Goods are taken on vehicles from Kabul to a crossing place called Giobah, four hours drive from Jabal Saraj. There they are loaded on to donkeys and walked across the front line to opposition territory, where the goods are put back on to vehicles again. The Taliban charge a toll of $10 a donkey. Since there are hundreds of donkeys criss-crossing the front line and each donkey can make several trips a day, the Taliban are making a lot of money. Some of the shopkeepers say that they control the whole business, acting not merely as toll-collectors but as wholesalers as well.

An intriguing question is how much fuel is coming in this way. Dozens of tanks and armoured cars have been manoeuvring around Jabal Saraj over the past week. Are the Taliban commanders so greedy—and unafraid—that they are keeping the Northern Alliance army, here at least, on the move? Whatever the answer, donkey commerce has political implications. At Giobah it shows that the commanders are “Taliban-lite”—more interested in money than ideology. Perhaps their aim is to keep on the winning side of the lines. If so, they may be susceptible to defecting, when the time is right.

Commanders elsewhere see things differently. In Farkhar, a virtually inaccessible town in opposition territory just over the front line from Taliban-held Taloqan, the same goods are on sale as in Jabal Saraj. Here, though, the price of business can be death. In Taloqan, hard-core Taliban control the front. They scatter mines along the mountain tracks to try to stop the trade.

In Farkhar's hospital, Suleiman, thin and fifty-something, looked at the stump of his amputated leg. He and three of his friends had been surprised by a Taliban patrol as they made the night-time crossing. His friends got away but he had his donkey confiscated along with his goods. Then the Taliban told him to “walk”—straight on to a mine, where they left him for dead. His friends were too scared to come back but paid a man to rescue him.

On Farkhar's main street a rough coffin was loaded on to the back of truck. It contained the body of Najibullah, a married man with five children. He had died after stepping on a mine while crossing from Taliban territory with sacks of food to sell in the market. His wife, back in Taliban territory, did not yet know that her husband was dead. His brother, who had come to collect his body said: “It was too risky but he had to do it. No one with money would do such a job.”

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A little-noticed Muslim gathering

Talking faith

Nov 8th 2001 | RAIWIND
From The Economist print edition

An enormous gathering of Muslims preferred contemplation to strife

UNDER the circumstances, it sounded like trouble. With American bombs falling on Afghanistan and stirring passions in neighbouring Pakistan, to proceed with what is said to be the second-largest gathering of Muslims (after the *haj* in Mecca) looked like piling up dynamite next to a fire. What if the million or so Muslims (estimates vary) who had gathered in rice fields at Raiwind, near Lahore, were roused from devotion to march on the capital of Pakistan's biggest province? The religious revolution against Pakistan's President Pervez Musharraf, America's ally in the war against terrorism, might begin.

They did gather, for three days beginning on November 2nd, and nothing of the sort happened. The occasion was the annual convocation of Tablighi Jamaat ("proselytising party"), one of the most important and obscure of the world's Islamic movements. Although it is proud of having converted Cat Stevens, a British folk-rocker now known as Yusuf Islam, to the faith, Tablighi has no ledgers, no office holders, no funds and no orthodox means of public relations, claims Malik Mumtaz, one of its elders. Tablighi puts a westerner in mind of the Christian mendicant orders. The main activity of its adherents is to exhort other Muslims to lead holier lives. Its travelling part-time preachers come from all walks of life, and pay their own way.

Making bricks

Tablighi is apolitical but does not reject politics. Its Raiwind gathering was largely free of shows of admiration for Osama bin Laden, a hero to many Pakistanis. But its elders do not bridle at the suggestion that violent groups find recruits among its followers. One of them likens Tablighi to a kiln, making bricks fit for use in any holy activity, including *jihad*.

The talk at Raiwind was of the example of the Prophet Muhammad, however, and the mood was contemplative. Many left with little thought of holy war. Muhammad Imtiaz, a chemical-engineering student who leads the Tablighi group of his hostel at the University of the Punjab, says, "No prophet was ever sent to kill people." If Mr bin Laden was behind the September 11th attacks, Mr Imtiaz says, he "has damaged Islam". Many of his fellows in Raiwind might disagree, but for a few days they put thoughts of war aside and concentrated on more pressing matters, like how best to spread the word of Allah.

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Saudi Arabia and Iran

Second thoughts on two Islamic states

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Will the stability of the regimes in Saudi Arabia and Iran be affected by their responses to the bombing of Afghanistan?

AP

THE great churning of received opinions that has been going on in America since September 11th is disgorging some revisionist thinking on Saudi Arabia and, to a lesser extent, on Iran too. These two theocratic regimes on opposite sides of the Gulf are linked by their obedience to strict Islamic law, the one Sunni, the other Shia. Both are guided by rules and principles that are alien and puzzling to much of the outside world. After years of hostile rivalry they have, since 1998, established reasonably good relations with each other. But, while one has been cautiously cherished as America's friend, the other has been held at bay as its enemy.

Saudi Arabia, though by far the more repressive, secretive and undemocratic of the two, is much richer in oil (sitting on a quarter of the world's reserves), and has long enjoyed a mutually beneficial relationship with its good ally, America. Iran, stridently anti-American since its 1979 Islamic revolution, has been regarded, justifiably on some occasions, as a dangerous threat to western interests, kept in quarantine through unilateral sanctions. But, since the terrorist assaults on New York and Washington, and America's counter-attack on Afghanistan, the contrast between the two is no longer set in concrete: Saudi Arabia has been rather less co-operative in the war than America expected it to be; Iran rather more.

AP

America and friends

The crudest form of the American rethinking is to criticise Saudi Arabia for its “ingratitude”. True, American officialdom falls over itself to deny such a charge. But unofficial opinion, in the media and elsewhere, is much taken with the thought that ten years ago the Americans saved the Saudis from a possible Iraqi invasion, but now the unappreciative so-and-sos withhold their full support for America's own war on terrorism. In this context, Americans remind themselves, at least half of the 19 terrorists who carried out the September 11th attacks were Saudi citizens, as was, until his citizenship was revoked, Osama bin Laden himself.

Many of the trails from the “charities” that finance terrorist or militant groups, including Mr bin Laden's al-Qaeda, wend their way back to the Saudi kingdom, and even to the extended royal family itself. Until very recently, the Saudi regime supported the Taliban, encouraging its people to visit Afghanistan. And the stern form of Islam that dominates Saudi Arabia is not a million miles from the Taliban's own religious practices.

To cap it all, the Saudi authorities have been reluctant to give the FBI the assistance it needs to trace the contacts and background of the hijackers (not so, insist embarrassed American officials again). It is recollected that the authorities were equally unco-operative after 19 American servicemen were killed by a bomb explosion at their Al Khobar barracks in Saudi Arabia in 1996. The Saudis carried out their own summary justice on Saudi suspects quickly found guilty, but refused even to consider American evidence that international terrorism, probably emanating from Iran, might have had a hand in the killing.

There are fresh doubts about the Saudi regime's stability

Generated or encouraged by these new doubts on its reliability as an ally, come fresh doubts about the Saudi regime's stability. The kingdom is indeed as it ever was. But the repressiveness of its laws, its total absence of democracy, its opaqueness, the corruption and venality of some of its myriad princes, are suddenly seen anew. America's National Security Agency, reveals Seymour Hersh in the *New Yorker*, has for years been intercepting conversations between members of the royal family, listening to their quarrels and complaints, and deducing that some of their money finds its way to ill-intentioned causes. American intelligence, says the same article, believes that the growing instability of the Saudi regime, and the vulnerability of its oil reserves to terrorist attack, is the most immediate threat to American interests in the Middle East.

The irony is that the American connection adds to the regime's vulnerability. Those American troops, on Saudi soil to protect the oilfields and generate stability, may not be achieving that. The royal family's constant and delicate balancing act is between its newish pact with America and its ancient pact with an Islamic sect, Wahhabism, which remains unequivocally opposed to adopting “infidel” ways, let alone siding with infidels in a battle against Muslims.

The balance was badly shaken in 1979 when an ultra-religious rebel group accused the al-Sauds of letting Muslim values be eroded, thus allowing the corruption that Islamic purists believe to be part and parcel of modernisation. The rebels seized the Grand Mosque at Mecca, and held it for three weeks until they were thrown out by the Saudi army and killed or executed. Since then, the regime has done its best to accommodate ultra-religious dissent, partly by dishing out money (though recently there has been a lot less of that around), and partly by giving religious leaders an even greater say on such matters as security, education and freedom of expression.

There were troubles in the early 1990s, largely in reaction to the post-Gulf-war American presence, plus the flagrant misdeeds of some Saudi princes. These troubles were weathered. But now the balance is again threatened.

The ruling family has tried to ease the pressure by giving free rein to critics of the anti-terrorist campaign, allowing them to blast full-throatedly at what is happening, or may be happening, to Afghan civilians. The family's red line is an attack on itself. But this, too, came close to being crossed when a prominent cleric issued a *fatwa*, or religious edict, proclaiming that “whoever supports the infidel is considered an infidel.” Other, anonymous, statements drew the connection between the *fatwa* and the royal family's support, however half-hearted, for infidel America. A dangerous pointer towards uneasy times.

Sink or swim

Can outsiders help to stabilise the regime? Or should they even be trying, given that it is a pretty unpleasant government, above all in its treatment of women? And, following on from that thought, is there anything going on in Saudi Arabia that might bring about the social and political reforms needed to make it a less undesirable place from a western point of view?

Taking the middle question first—should outsiders try to help?—the answer has to be a reluctant yes. At this stage, there is no acceptable-looking successor regime on the horizon; the danger is of something worse, thrusting the country back into even remoter Islamic times. The prospect, for the West's oil supplies, regional stability and the Saudis' own future would then be daunting. Though one is Islamist and the other was secular, there are parallels to be drawn between Saudi Arabia now and Iran in the last days of the shah: a monarchical regime, repressive, clouded by corruption and over-close to America, under attack from religious extremists intent on imposing their own infidel-free regime. No one in his right mind would wish the destructive early years of the Iranian revolution on to any other country.

Crown Prince Abdullah, who has run Saudi Arabia since his half-brother King Fahd was incapacitated by a stroke in 1995, drew this parallel himself in a letter that, according to the *Wall Street Journal*, he wrote prophetically to George Bush at the end of August, and then read last month to a Saudi audience. “It is time”, said Prince Abdullah, “for the United States and Saudi Arabia to look to their separate interests. Those governments that don't feel the pulse of the people and respond to it will suffer the fate of the shah of Iran.”

The Americans need to understand the importance of this Saudi plea for distance. For a start, the 5,000 or so American soldiers in the kingdom have come to look like a liability for both governments: a return

to an American military presence “over the horizon” would probably be much more satisfactory for both. The awkwardness is in the timing: since the removal of the troops is a prime demand of Mr bin Laden, neither government wants to be seen to give in.

Another urgent need is to defuse the current Israeli-Palestinian crisis. This need has been impressed *ad nauseam* on every visiting American and Briton by every Arab host. The concern of the average Saudi for individual Palestinian suffering may in truth be less than skin-deep, but the Palestinian *intifada* and America's current call for solidarity have combined to make the Palestinian issue crucial to American-Saudi relations. The gulf of misunderstanding that exists between the two countries was highlighted when New York's mayor rejected a charitable donation of $10m because the Saudi prince who offered the gift as a gesture of sympathy also called for a change in American policy towards the Palestinians. The mayor did right, concluded many Americans, but the Saudis were incensed.

Probably, despite the dangers and dire comparisons with the shah of Iran, the regime will survive intact. What, then, are its prospects for reform? Not good, is the short answer. There are plenty of Saudis, particularly those educated abroad, who would like things to change, politically and socially as well as economically. They would like the country to make a more convincing bid at democracy than its appointed consultative chamber, to be free of the zeal of its religious police, to accept that men and women are the same species. But they are out-numbered, and out-influenced, by crusty tribal conservatives and by religious militants who equate modernisation with whisky and fornication.

For too many conservatives and religious militants, modernisation equates with whisky and fornication

In the short term, the country's best hope, for stability if not for reform, may lie in Prince Abdullah, its 78-year-old de facto ruler. King Fahd, it is said, is carefully preserved on the throne by his brothers, particularly the defence minister, Prince Sultan, and others determined to prevent Abdullah from ascending it. Were he king in name as well as in practice, Abdullah would still be unlikely to push for vigorous reform: with Iran's late shah in mind, he might remember that it was the shah's belated decision to loosen the country's shackles that hastened his own undoing.

But the crown prince, who has an honest reputation and is generally popular, is expected to launch a serious anti-corruption drive into the heart of his vast, often corrupt family, and to be more confrontational with the United States over issues that affect his standing at home. This would do nothing to ease Saudi-American friction. But it could well take the kingdom's own politics into calmer waters.

Iran's tug of war

In many ways Iran is moving in counterpoint to its fellow theocratic state. Iran has been consistent in its opposition to the Taliban (partly because it believed that over-the-top Afghan Islamic militancy was giving all Islamic militancy a bad name). It is moving cautiously but perceptibly away from its 20-year-old hostility towards the United States. It has a refreshingly democratic constitution, even though it is constantly thwarted in practice. And it is struggling against the odds to reform its society. But it is at one with Saudi Arabia in having a government that is destabilised by its internal contradictions, by being constantly pushed and pulled in two directions.

While the Saudi regime is pulled between its alliance with America and its anti-American domestic supporters, Iran is a battered tug-of-war between reformers and conservatives. The reformers, led by President Muhammad Khatami, try patiently, within the strict framework of a clerical state, to make Iran more liberal. They are blocked by the conservatives, led by the supreme leader, Ayatollah Ali Khamenei, and scorned by the impatient, who want to escape clerical confines altogether. Though it often seems as though this pushing and pulling can yield no advance—and that the impatient will one day rebel against the timidity of their reformist government—the incremental effect, over the years, is that Iran has become a much freer and more decent place to live in than it was in the post-revolutionary years.

The reformist-conservative fight spills over into Iran's response to America's campaign against the Taliban. Although both want the Taliban ousted, the conservatives are determined that there should be no break in American-Iranian hostility. Renewing old anti-American slogans, they charge the United States with getting nowhere except in the killing of civilians, and they concentrate on their very real fear of American troops being stationed next door to Iran. The head of Iran's judiciary, a conservative bastion, has even threatened legal action against people who advocate improving ties: a parliamentary committee was swiftly forced to drop its call for a direct Iranian-American dialogue.

Despite these constraints, the reformers have developed, in a series of formal meetings with European interlocutors, and in informal gatherings with the Americans themselves, a positive neutrality that is helpful to the Americans. They have, for instance, allowed an Iranian port to be used as a distribution point for American food aid going to Afghanistan, and are co-operating fully with the UN's explorations into a post-Taliban regime. Probably their most helpful contribution so far has been to use their influence with the leaders of the Northern Alliance opposition to the Taliban to press it to accept an eventual broadly-based caretaker government.

American-Iranian history carries too many hostages for change in the complex relationship to be easy. Both countries have bled from past encounters, ranging from the CIA-organised coup against the late Muhammad Mossadeq's nationalist government in 1953 to the seizure of American diplomats by Islamic revolutionaries in 1979. But so long as America maintains its unilateral ban on trade and investment, and the State Department keeps Iran on its list of countries that sponsor terrorism, there can be no hope of official talks, or of Iranian reformers making their case past conservative resistance.

The Americans say that they have first to be satisfied that Iran is not, as they suspect, seeking nuclear and other high-tech weapons, and that its support for terrorism is a thing of the past. None of this is straightforward. America's suspicion that Iran was behind the bombing of the Al Khobar barracks is a formidable obstacle. On the other hand, there is a sniff of double standards in the air: the support that Iran gives to Palestinian groups, such as Hamas, is probably less than these groups are getting from Saudi Arabia. And one of America's conditions—that Iran must cease to sabotage the Israeli-Palestinian peace process—may unfortunately have disappeared with the peace process itself.

What does seem to be clear is that Iran's muted response to the American-led war provides a chance that is unlikely to be soon repeated. Second thoughts that make an enemy of Saudi Arabia are unhelpful; second thoughts to end the enmity with Iran could be a new beginning.

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New York's new mayor

Mike's mighty challenge

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AP

A political novice takes command of a wounded city

Get article background

THE city's “biggest-ever political upset”, it has been called. A week ago, it seemed highly unlikely that Michael Bloomberg, a billionaire businessman, would succeed his fellow Republican Rudy Giuliani as New York's mayor. After an error-prone campaign, he was far behind Mark Green, his Democratic opponent, in the opinion polls. What chance did a tycoon playing politics stand in a city where Democrats outnumber Republicans by a sweeping five to one?

That Mr Bloomberg won on Tuesday, by the slimmest of margins, is the result of a combination of four things. First and most obviously, the $55m of his own money that he spent. The final week saw a barrage of Bloomberg ads. Second, Mr Green, an erstwhile left-winger, fought an increasingly petty campaign that divided his own party. Third, during the final week Mr Bloomberg at last got the enthusiastic endorsement of Mr Giuliani, New Yorkers' hero since September 11th.

The fourth factor was what that day's terrorism did to New York. It transformed the challenge facing the city, and thus the sort of mayor the city needs. Battered New York has a yawning hole in its budget. Mr Bloomberg, who has spent his life building business and creating wealth, seemed a better bet than Mr Green, who looked a tax-and-spend sort of fellow.

Even so, Mr Bloomberg faces a daunting task. Begin with Mr Giuliani's greatest achievement. By reducing crime by 60%, he attracted new residents, businesses and tourists, and made possible a cultural renaissance. New York seemed a safer place. Nobody in New York feels safe today.

Can Mr Bloomberg change this? He will certainly have the loyalty of the police, though he may have to replace a large number of officers taking early retirement because of a quirk in their pension plan. New York is arguably better prepared to deal with another terrorist attack than any other American city. But it is also more likely to be attacked. The boss of one global security firm calls it a “near-certainty” that terrorists will attempt another attack in Manhattan before Christmas.

Mr Bloomberg does not take over until the new year. But even if he gets the city working effectively with the state and the federal governments, it is by no means clear that further attacks can be prevented. So it will be no surprise if many New Yorkers, and their businesses, decide to move somewhere less vulnerable.

The city's economy was already stumbling before September 11th. The smashing of the twin towers made things much worse, not only by pushing the national economy over the edge into recession but also by hitting the one industry in the city that would probably have stayed buoyant during a normal recession—tourism. Hotel occupancy, 45% soon after the attack, is back up to 76%, but still well below the 93% norm for this time of year, even though prices have been slashed. Some forecasts suggest that next year tourism revenues will be 15-20% lower than expected.

As soon as Mr Bloomberg takes office, he will start preparing a budget for the fiscal year starting next June. On current economic forecasts and current spending plans, he may face a deficit above $4 billion, maybe even $6 billion. Federal aid and further borrowing may ease the pain, but he will still face a nasty combination of higher taxes and spending cuts.

Tackling a $4 billion deficit is “difficult but not unprecedented”, says Steve Malanga of the Manhattan Institute, a think-tank. Mr Giuliani inherited a deficit that size in 1994. There are still opportunities to make large savings by changing working practices. Mr Giuliani had begun to do that, before a tight labour market made it harder; but that is no problem now.

Long-term contracts have still to be negotiated with the police, the teachers and other city employees. Mr Bloomberg has no experience of negotiating with unions, having banned them in his own company. But then Mr Giuliani had no experience either; he still cut some tough deals. And because (unlike Mr Green) Mr Bloomberg was not endorsed by the teachers' union, he has no favours to repay them. The need to cut costs may push Mr Bloomberg into attempting a serious reform of the school system. But will the new mayor have the energy, and the know-how, needed to wrest control of the schools away from the Board of Education, which has run them so poorly?

Of huge economic and symbolic importance will be the rebuilding of downtown Manhattan. Here, Mr Bloomberg has to act quickly, avoiding the endless “visionary” debates that have dogged so many of the city's past development projects. Mr Giuliani and George Pataki, the governor of New York state, have set up a commission to lead the rebuilding effort. A similar commission did a good job improving Times Square. But such commissions have a nasty habit of going wrong. The latest issue of the *City Journal* claims that even the building of the World Trade Centre, overseen by the publicly owned Port Authority, was a “grandiose monument to the ills of state capitalism”.

Mr Bloomberg takes on these challenges with no experience of governing. And he can be prickly with those who question him. So could Mr Giuliani. But the departing mayor managed to turn pugnacity into a virtue, imposing his will on a city that under his predecessor seemed ungovernable. Tony Coles, a deputy mayor, reckons that some of Mr Giuliani's ways of running the city have taken solid root. The new mayor inherits a detailed list of its priorities, and a handy system for measuring progress. But in the end, says Mr Coles, much of Mr Giuliani's success came from “relentless energy and wise decisions”. Over to you, Mr Bloomberg.

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Baseball and life

More than a game

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Battered New Yorkers see their city's fate in their team's

AP

In the bottom of the ninth

PASSING along any New York street on recent evenings, you saw flickers of light coming through the windows of homes and bars in an identical rhythm. Television sets were glued into the struggles of the Yankees, a baseball team that knew everything about the game except, until the very end, how to lose.

The defeat, which came on November 4th in the last innings of the last game of the World Series, ended a run of three successive championships for the Yankees. It happened even though they had gone into the last inning with a lead that should have been protected by the best relief pitcher in the game. It made a sad swansong for many beloved players, who will be leaving when the team is rejigged for the next season. And it shattered, alas, what used to be the team's most attractive characteristic, its ability to stay calm, and still win, in the worst of circumstances. The shock, if not the sorrow, is felt by more than the Yankees' own fans.

Still, by pushing baseball, a summer game, into the first chill of winter, and by doing so with one gallant comeback after another, the Yankees at least provided a welcome distraction for a city that since September 11th has been suffering from blocked streets, acrid air and not a little fear. The symbolism was underlined by the team's vulnerability. The Yankees barely survived the first round of the play-offs, against the Oakland Athletics, and to most people's surprise then beat even the Seattle Mariners, in many ways a better side.

The team that eventually defeated them was the Arizona Diamondbacks, an example of another part of the American story. Created only four years ago (with the help of a former Yankee), the Diamondbacks were led by two ageing pitchers determined to show that they could prevail against the very best.

Now, as any New Yorker would have foretold, the Yankees have begun to rebuild themselves. Old players have retired; flawed ones will be paid to go away. Soon younger, stronger men will arrive. They will come, in part, because of money, but also because a Yankee likes to hold his head high. “Whenever we are up at bat, we feel we can win,” said the team's best player, Derek Jeter. That is the sort of thing post-September New Yorkers like to be reminded of.

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New Jersey and Virginia

In with the (almost) new

Nov 8th 2001 | NEW YORK AND RICHMOND
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Democrats take power again

AP

Quasi-Republican Warner

TWO populous eastern states, two big Democratic victories. But the results of Tuesday's elections for governor in New Jersey and Virginia had little to do with national politics, and far more to do with local issues. Both victories had been in the air since last summer, and September 11th did not alter the calculation.

In New Jersey, Jim McGreevey, the Democratic candidate, won by a landslide, and Democrats also won control of the General Assembly. They had massively outspent the Republicans in an effort to mobilise non-whites and women. But most of the Republicans' wounds were self-inflicted. Their candidate, Bret Schundler, a former mayor of Jersey City, proved too hardline for his mainly moderate party. His stand against abortion and against gun control put many voters off; his tax-cutting offers fell flat; and a continuing feud with his Republican primary opponent, Bob Franks, seemed to do the rest.

Republicans had held the governorship since 1993, and the candidate who won then, Christine Whitman, has since become a national figure. But even Ms Whitman's hold on the job was weak, and she nearly lost to Mr McGreevey in 1997. The consensus now is less that voters have fallen for Mr McGreevey's charms (since they resisted them before), than that they felt eight years of Republican leadership was enough.

Virginia, a reflexively Republican place, has seldom felt that way. And although it has now elected a Democrat, Mark Warner, as governor, he looks and sounds very like a Republican. Born in Indiana, brought up in Connecticut, a high-tech yuppie millionaire who spent nearly $5m of his own money on his race, Mr Warner knew he could win only by blurring the distinctions between himself and his Republican opponent, Mark Earley. This reached the point where Mr Warner, who lives in a very smart city district, posed in hunter's head-to-toe camouflage to make sure he did not lose the (large) pro-gun vote.

But it may have been a Republican theme that put Mr Warner over the top. Since retaking the governor's office in 1993, Republicans have emphasised fiscal discipline. But they surrendered the issue to the Democrats after failing, for the first time in Virginia's history, to pass a state budget.

That was entirely their fault. The departing Republican governor, James Gilmore, insisted that lawmakers complete the phase-out of a much-loathed local tax on personal cars and trucks; but the Republican-controlled legislature, worried about the loss of revenue, could not agree. The collapse of the budget meant, among other things, that 200,000 public employees lost pay rises, building stopped on college campuses, road building slowed down and millions of dollars in aid to local cultural attractions disappeared. Mr Warner had only to say the word “budget” to win votes. As in New Jersey, Virginians no longer care much for tax cuts.

As a political neophyte, who has never held elective office before, Mr Warner is certainly a new broom. But it is not clear that the Republican-controlled legislature will work with him. Despite losing a governor and lieutenant-governor, the Republicans—thanks largely to artful redistricting—picked up a dozen seats in the House of Delegates, giving them a nearly veto-proof two-to-one advantage over the Democrats. The Republicans also held the attorney-general's office, ensuring them a credible candidate for the governor's race four years hence.

The election was seen as a referendum on Mr Gilmore, whose combative style has alienated many in his own party. As chairman of the Republican National Committee, a job for which he was hand-picked by the president, he saw to it that national Republicans pumped $3m into Mr Earley's campaign chest. He may thereby have saved him from a truly Titanic loss. But he may not have saved himself, some think, from losing his job as party chairman.

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Churchill-mania

Their finest hour

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But hold the brandy and cigars

THEY make an exceedingly odd couple. George Bush is a super-fit athlete who has renounced the demon drink. Winston Churchill was a cigar-smoking puffball whose daily alcohol regime included sherry at breakfast, whisky at lunch, champagne at dinner and brandy before bed.

And yet Mr Bush is marching into battle against terrorism with Churchill's ghost by his side. He has a bronze bust of the great man in the Oval Office, on loan from the British government. He frequently tells visitors that Churchill is his favourite politician, and lards his speeches with Churchillian-sounding phrases. (“We will not waver, we will not tire, we will not falter, and we will not fail.”) The trick seems to be working. In the past, Mr Bush frequently seemed to be engaged in battle with the English language. Since September 11th, with Churchill's help, he has recruited it into his grand coalition against terrorism.

Every politician worth his whisky is now quoting Churchill

Mr Bush is not the only senior Republican with a Churchill fixation. Karl Rove, Mr Bush's guiding hand, recently put up a poster of Churchill in the Old Executive Office Building. On November 6th Donald Rumsfeld, the defence secretary, invoked Churchill in pouring scorn on people who doubt America's will to see the battle through to victory. (He is also worryingly fond of quoting Churchill's famous phrase about truth being so precious in wartime that “it must be accompanied by a bodyguard of lies”.) As for Rudy Giuliani, he quotes Churchill so frequently that he has earned himself the title of “Churchill in a Yankees cap”.

Why this hero-worship? Because the Bush administration is struck by the similarities between the current war and the war against Hitler. America is engaged in a dramatic struggle with a charismatic nutcase who, to American eyes, has developed an Islamic version of fascism. It is fighting on two fronts, domestic and foreign, just as England was in 1940. And it is once again marching shoulder-to-shoulder with Great Britain.

Churchill also unites all political persuasions. The *Weekly Standard*, a conservative magazine, named him as its man of the century. But Democrats also have a soft spot for a man whom they associate with the struggle against fascism rather than the crushing of Britain's 1926 general strike. Al Gore quotes him too.

The biggest reason for invoking Churchill, of course, is that he won his war. But Mr Bush and his men should not forget that, for all their gratitude, the British people then kicked him out of his job.

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Detroit

At a crossroads

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The new mayor has a hard act to follow

SIX-FOOT-FOUR, and thickly built, Detroit's new mayor, Kwame Kilpatrick, is a mountain of a man. In local politics, he has proved himself a meteor. He is aged all of 31. Having won his mother's old seat in the Michigan legislature (he comes from an old Detroit political family), last year he became the leader of the Democratic minority there, the first black to do so. Just six months into that job, he declared himself a candidate for mayor of Detroit, the tenth-largest city in the country. After trouncing the field in the September primary, he won comfortably on Tuesday.

The question now is whether this smiling giant will match the political stature of his predecessor, Dennis Archer. Mr Archer, who disappointed many by declining to run for re-election, is widely credited with getting to grips with the city's formidable problems. Detroit, once a bustling metropolis that rivalled Chicago, has lost half its population since the 1950s. After the riots of 1967, whites fled the city. A third of the people who live there now are below the poverty line. Mr Archer, however, had stemmed the loss of businesses and jobs. Kroger, Michigan's largest supermarket chain, opened its first store in central Detroit this summer.

Mr Kilpatrick says he will seek to bring more high-tech companies into the city, and spread its centre's economic rebirth to its still struggling inner suburbs. He will have his work cut out. Any plan for economic salvation will depend on ridding the city of about 9,000 abandoned properties, which cut property values and breed crime. The new mayor, who accepted the backing of the city's public-sector unions, must also prove he can straighten out the city's awful public services—or privatise them. Pupils have been sent home because the city-owned utility could not provide schools with electricity. Roads and parks, without enough money to maintain them, are rapidly deteriorating.

Still, Detroit's bond rating was upgraded 11 times on Mr Archer's watch. Impressive new buildings revived the once-frightening city centre, including two sports stadiums, one of which will host the Superbowl in 2006. Three new casinos, and a lively Greektown, have drawn a stream of visitors. This summer, a campaign to end the flight from the city's public schools succeeded in increasing enrolment for the first time in five years. Can Mr Kilpatrick keep the recovery going?

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The economy

Lengthening shadows

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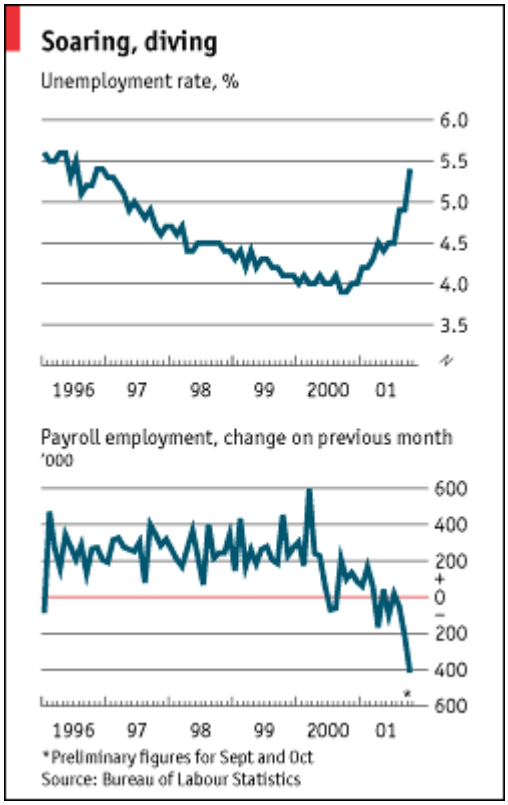
The Federal Reserve's tenth interest-rate cut of the year will not stave off recession

IN THE forest of statistics that describe the economy, a few figures sometimes stand out. October's jobless figures, for example. Outside agriculture, 415,000 jobs were lost last month, almost double the number most analysts expected. The unemployment rate jumped half a percentage point to 5.4%, the biggest rise in more than 20 years. The jobless rate for black people rose by a whole percentage point, to 9.7%. In sum, if anyone still needed proof, the economy is in trouble.

A stark picture emerges of the impact of September 11th (88,000 jobs were lost in the airline and hotel industries, as were 107,000 temporary-help jobs, many in the same industries). But with another 220,000 jobs lost in unrelated businesses, there was evidence of much broader distress. Workers clocked in fewer hours on average, and weekly earnings fell.

Although 415,000 job losses in a month may be a peak, they are unlikely to be an aberration. According to the latest survey of lay-off announcements by Challenger Gray & Christmas, an outplacement firm, over 242,000 lay-offs were announced in October, barely below the 248,000 announced in September. Most of these announced lay-offs will become actual job losses over the next few months. Many Wall Street analysts think the unemployment rate may soon reach 6.5% or more, as firms continue to cut back.



Throughout the economy, the picture is gloomy. Manufacturing remains in its 15-month slump. The monthly purchasing managers' index, which gives a sense of conditions in manufacturing, fell in October to its lowest reading since February 1991. Worse, a newer index that covers non-manufacturing industries tumbled almost 10% in October, its biggest monthly fall since the gauge was started in 1997. The only bright spot was a surge in car sales. Lured by offers of free financing, Americans rushed to buy 21.3m new cars and light trucks last month, the highest monthly figure on record. Unfortunately, most analysts reckon these sales have simply borrowed from next year. And overall, with unemployment rising, consumption is set to fall.

So Wall Street's number-crunchers are busy revising down their predictions. Economists at Goldman Sachs, for instance, now expect America's GDP to contract at an annual rate of 3.5% in the last quarter of 2001, with a further annual-rate contraction of 1% in the first quarter of 2002. And yet, judging both by the boffins' forecasts and the stockmarket's sanguine response to the bad news, Wall Street's conviction that this will be a swift, relatively mild, recession remains undented.

That conviction rests on several planks: that firms are rapidly cutting back excess capacity and stocks; that oil prices are falling; and that monetary and fiscal policy will offer the economy a big boost. Superficially, things look that way. Oil prices continue to fall. Inventories fell at their fastest rate for 20 years in the third quarter. Monetary policy is being eased aggressively. On November 6th, the Federal Reserve made its tenth interest-rate cut of the year, reducing short-term interest rates by half a point to 2%. And the fiscal debate has a renewed urgency. After the unemployment figures were released on November 2nd, George Bush called for a stimulus bill to be on his desk by the end of the month.

Unfortunately, the case for optimism is less than solid. There are few signs that corporate America is nearing the end of its retrenchment. Despite the collapse in capital spending—it fell by an annualised 12% in the third quarter, after an annualised 14.6% drop in the second—firms still have a lot of excess capacity and big financing gaps. The excesses of the late 1990s investment binge will take time to work off. Meanwhile, the world economic environment continues to grow greyer. Europe is stagnant, while Japan is in its fourth recession in a decade.

That leaves the optimists' case dangerously dependent on an effective stimulus from monetary and fiscal policy. In all, the Fed has now cut short-term rates by 4½ points since January. Measured against the consumer-price index, real interest rates are now negative.

The 2001 campaign of monetary loosening has undoubtedly had some effect, most obviously by underpinning consumption as millions of Americans have refinanced their mortgages. And given the lags involved, much of the impetus from recent cuts is still to come. Nonetheless, few now doubt that the impact of monetary policy has been more muted than in other recent recessions. Cutting interest rates seems to be less effective in a downturn caused by excess investment than in others. That alone should give the optimists pause for thought. More important, the Fed's arsenal is shrinking, since interest rates cannot go below zero. That suggests future rate cuts will in part be determined by the need to keep some firepower in reserve. It does not suggest the Fed can continue easing as dramatically as before.

So a good deal of the cheer is based on the expectation of a big fiscal stimulus. Wall Street is expecting a fiscal boost in the order of 1.5-1.75% of GDP. Unfortunately, after an impressive show of bipartisanship in the wake of September 11th, Congress is regressing into acrimony and gridlock. And, if passed, many of the proposed stimulus measures may have scant short-term impact.

Massive extra spending is increasingly unlikely. Mr Bush this week threatened to veto any congressional bill that spends more than the $40 billion already agreed on anti-terrorism efforts. The proposed stimulus is likely to be offered primarily through tax cuts.

The House of Representatives has passed a package worth $100 billion next year, but this consists largely of corporate tax breaks that are unlikely to produce a big boost to demand. The Senate is in gridlock. Senate Republicans have a plan for $90 billion of stimulus next year based largely on accelerating income-tax cuts. Although the cuts would be permanent, they would go overwhelmingly to richer people, which would probably stunt their short-term stimulative impact. Senate Democrats are pushing a $70 billion bill focused on extending benefits and subsidising health insurance for the unemployed. As neither side looks likely to persuade the 60 senators whose votes are needed for passage, a grand compromise is inevitable. Unfortunately, that bargain will be driven by politics rather than economics.

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Reading the tea-leaves

Nov 8th 2001
From The Economist print edition

What has and hasn't changed in politics since September 11th

THE elections of 2001 may suggest that relatively little has changed in American politics since the horrors of September. Only in New York did terrorism seem to make a difference. After Bill Clinton's first year in office, the Republicans' clean sweep of the big four contests (New York, New Jersey and Virginia, plus the Los Angeles mayor's race in the summer) provided the first hints of the reaction that culminated in the Republican landslide of 1994. This year, with George Bush's ratings in the stratosphere, no such reaction is in train, even though Democrats have now won back three of their four lost crowns (they recaptured Los Angeles in June).

Yet these races, though they reflect local issues, also have wider significance. They show what has changed since September 11th, and what has not. It is, you might say, a semi-change. This makes American politics even more fluid than usual.

The first transformation is that national politics is now focused completely on one subject, the war against terror. This, in turn, has made politics much more important to the average American. For much of the frivolous 1990s, up to and including the 2000 race, politics mattered less than business and communications, and the outside world barely rated a mention. Now terrorism and economic security are uppermost in voters' minds, and more than half the population thinks foreign affairs “extremely important”. In January, the figure was 17%.

Politics is suddenly much more important to the average American

This has transformed Mr Bush's presidency. He is now a war president, and, as long as the conflict continues, will be judged by how it is conducted. For a while, he can count on a long leash of public patience: Americans do not expect the war to end quickly or cleanly. They will probably support him also in any struggles with Congress. War presidencies do not fail because they are ambushed by domestic troubles; they rise above them. They fail if the war goes badly or gets bogged down in stalemate. Trouble starts when the war ends. George Bush senior's woes did not start until after the Gulf war was over.

The war on terror has also transformed politics by increasing the authority and prestige of national institutions. This is most striking among the institutions that defend Americans from external threat: the armed forces, the CIA, the FBI and so on. But it goes wider than that. There has been a startling renewal of broader public confidence in government, back up to levels last seen before the Vietnam war.

As these changes have gradually become clear, pundits have been wondering which party would benefit most from them. Republicans, traditionally the party of military might and toughness abroad? Or Democrats, the party the voters tend to favour when they look to government for solutions to problems at home? The elections provide something of an answer. The races in Virginia and New Jersey suggest that Democrats may be getting slightly the better of this debate. Voters are rejecting anti-tax, small-government tickets. So the big changes since September 11th have had slightly contradictory results: they have made Mr Bush harder to criticise as a war president, yet they have rescued the Democrats from the split between left and right that contributed to the incoherence of the Gore campaign.

That pocketbook factor

But one thing remains unchanged. In the absence of other factors, a bad economy loses elections for the party in power. The sudden increase in unemployment and the sharp fall in consumer confidence since September mean that Mr Bush is having to fight a war and a recession at the same time. This raises fears that what happened to his father in 1992 may threaten him in 2004, if the war is over by then but the recession is not.

The possibility may seem remote. At the moment, Osama bin Laden is being blamed for the downturn, not Mr Bush. But if this turns into a true bin Laden recession—that is, if it is prolonged by consumers' nervous unwillingness to spend—it may well be less amenable to monetary or fiscal stimulus than a conventional recession, and therefore last longer.

The worry is real enough for Mr Bush to go back to the main lessons of his father's defeat: do not ignore the economy, and do not neglect your conservative base (which failed to rally to Bush senior when he ran into problems). Bush junior has advantages here. Unlike his father, he ran on a domestic economic agenda of cutting taxes, and—not least because he has cut them—he has a reservoir of goodwill among conservatives. But the need to please the Republican base now conflicts with the need to act as a war president. Mr Bush is being pulled in opposite directions.

Mr Bush's need to please his Republican base now conflicts with his need to act as a war president

As a war president, his main concern has been to keep the country united behind military action: in other words, to keep congressional Republicans and Democrats from bickering. He has had huge success. Democrats have been rock-solid behind the war effort. But this has required Mr Bush to eschew electoral partisanship, causing grumbling in his own party (he refused to campaign for any of the Republican candidates, for instance). And in Congress he has been batted around like a shuttlecock. He made concessions to Democrats on the size of a proposed economic stimulus, then threatened to veto any spending measures above the $40 billion already agreed for anti-terrorism measures. He first pressed for a conservative version of an airline-security bill, then said he would not veto the Democratic version if that passed. The result has been confusion of leadership in a Congress that is anyway gridlocked over what to do.

It is not too late to get the economics right. But at the moment the confusion is worrying for the Republicans. It will also worry Mr Bush himself once the war in Afghanistan ends. In all recent mid-term elections fought during wars—1942, 1950 and 1966—the party in power did poorly even when the president was himself popular. As this week's elections show, even a 90% approval rating does not necessarily translate into votes for your side.

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The Venezuelan presidency

Threats lurk around Chavez

Nov 8th 2001 | CARACAS
From The Economist print edition

AP

The revolutionary language remains, but Venezuela's fiery president is less powerful than he looks

Get article background

WHEN the most senior military commanders of a Latin American country feel compelled to make a public statement of their loyalty to the elected president, as Venezuela's did this week, it suggests that all is not well in the body politic. The same goes for a recent decision to give public workers, including the army, a Christmas bonus of three months' salary, instead of the usual two. Though Hugo Chavez, Venezuela's voluble and impulsive president, probably has little immediate cause to fear for his job, his difficulties are steadily mounting—and not just because relations between his government and the United States have sharply deteriorated since September 11th.

Mr Chavez, a former paratroop commander who claims to be leading a “Bolivarian revolution”, is still fairly popular. But his poll ratings are sliding—and so is the price of oil, the country's (and the government's) main source of income. That spells trouble. Mr Chavez trumpets his success in reviving OPEC, more than doubling the value of Venezuela's oil exports between 1998 and 2000. But the average price of Venezuela's oil has now fallen to $16.5 a barrel, below the $18.5 on which next year's budget is based.

The government can draw on some $7 billion it has squirrelled away in a “stabilisation fund”. That may allow it to stave off recession next year. But the scope for buying political popularity is limited. Oil apart, the economy has been sluggish: GDP is growing at around 3% a year, not enough to finance a serious attack on poverty. Open unemployment, at around 14%, remains high. Violent crime, the voters' other main concern, is at record levels.

All of that explains why, for the first time since 1998, Mr Chavez is no longer indisputably Venezuela's most trusted politician. In one poll, he is eclipsed by Alfredo Peña, the mayor of Caracas, and a former supporter. The president's approval rating has fallen from a high of some 90% to between 40% and 50%.

As ministers frequently point out, a presidential election is not due for another five years, since Mr Chavez sought and won a new term in July 2000 in an election held under a new constitution. But the president himself cites popular support, rather than his election victories (the first was in 1998), as the source of his legitimacy in what he calls a “participatory democracy”. Without it, he might be unusually isolated and vulnerable.

The moribund bite back

The electoral alliance Mr Chavez forged in 1998 is no more. Its second-largest component, the Movement to Socialism, is now in opposition. His own Fifth Republic Movement is fractured. Having been derided as the corrupt representatives of a moribund political order, the opposition is now vengefully casting around for constitutional ways to unseat Mr Chavez. Some opponents are seeking a referendum to revoke his mandate. Democratic Action, the largest opposition force, is to ask the Supreme Court to establish a board of psychiatrists to declare the president “mentally incompetent”.

Mr Chavez has more to fear from other quarters. One is organised labour. A government effort to wrest control of the Venezuelan Workers' Confederation failed last month, when its candidate appeared to come a poor second in a chaotic leadership election. Then there are the armed forces and their traditional ally, the United States. In their statement this week, the generals criticised rumour-mongers in the media, but also stressed the importance of media freedom, in a swipe at threats by the president against a critical television station.

Until recently, American officials had opted to ignore Mr Chavez's rhetoric, since his actions had been neither clearly undemocratic nor unfriendly to foreign capital, including American oil companies. However, after Mr Chavez accused the Americans of “the killing of innocents” in Afghanistan, the United States this week summoned its ambassador in Caracas to an ostentatious “high-level review” of its policy towards Venezuela.

Some analysts believe that Mr Chavez provoked this row, as a means of rallying the country. If so, that could be a risky action. Though the United States would be unwise to encourage the armed forces to remove the president, Mr Chavez might be prudent not to tempt them to do so.

So where is the “Bolivarian revolution” heading? Some pundits have predicted that setbacks would prompt the radicalisation of what has so far been a pretty tame affair. Long-promised (or long-threatened) laws to increase royalties paid by foreign oil companies, and to restrict the size of landholdings, are now close to being enacted by the government under emergency legislative powers. But Mr Chavez is less powerful than he was two years ago. Wherever he may be tempted to lead it, his country will not necessarily follow.

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Nicaragua's election

Voting the American way

Nov 8th 2001 | MEXICO CITY
From The Economist print edition

The Sandinists are out, but not finished

Get article background

ALL things considered, Nicaragua's presidential election on Sunday went better than expected. The polls had predicted a close race, the electoral preparations had been plagued by delays, and at the last minute the two main parties had insisted on replacing all the electoral council's data-entry clerks with their own representatives, who were still being trained hours after the count was meant to have started. Nonetheless, the very next day Daniel Ortega, the Sandinist ex-president, conceded defeat after independent “quick counts” agreed that Enrique Bolaños of the ruling Liberal party had won decisively.

The result has many explanations. Some, particularly Sandinist supporters, think voters were scared away from Mr Ortega by the meddling of the United States. In comments to the media, American officials painted the Sandinists as unrepentant revolutionaries with dubious democratic credentials and possible links to terrorist organisations.

But it is hard to conclude that this swung the outcome. Until the election, most polls had put Mr Ortega only narrowly in the lead. In the event, the turnout was high: it is unofficially estimated that 75% of those on the electoral register voted (and most of the rest are thought to have migrated abroad, or to have died). Mr Bolaños appears to have won over most of those recorded in the opinion polls as undecided (up to 18%). Above all, though, what beat Mr Ortega was a consolidation behind Mr Bolaños of the anti-Sandinist vote, which the previous two elections had shown to encompass a majority of Nicaraguans. Support for the Conservatives dwindled almost to nothing after their popular candidate resigned.

The result was far from a disgrace for Mr Ortega. He won 42% of the vote, a higher share and a lot more actual votes than in 1996. The Liberals will have only about ten more seats than the Sandinists in the 92-seat National Assembly. After 11 years as president and another 11 as perpetual opposition candidate, Mr Ortega's time is surely up. There is no shortage of reformists who want to shake up the Sandinist movement. But Mr Ortega maintains a tight grip on the party, and he will have a seat in the assembly for the next five years.

The tougher job now is for Mr Bolaños, a 73-year-old businessman jailed by the Sandinists during their revolution in the 1980s. He must maintain economic austerity to win hoped-for debt relief from foreign lenders next year. He has promised to investigate allegations of corruption that have swirled around President Arnoldo Aleman and many of his staff. Mr Aleman's declared wealth increased nine times in dollar terms between 1990, when he became mayor of Managua, and 1997, when he became president. Despite the requirements of the law and demands from the audit office, he refused to make further wealth declarations during his term, invoking his immunity from prosecution.

That immunity will continue since Mr Aleman, too, has a guaranteed assembly seat, thanks to a pact last year between the Liberals and the Sandinists that also gave them joint control over bodies such as the Supreme Court. Mr Bolaños, though he was Mr Aleman's vice-president, has publicly distanced himself from the president. But Mr Aleman's cronies dominate the Liberal party. It will be hard for Mr Bolaños to break their grip.

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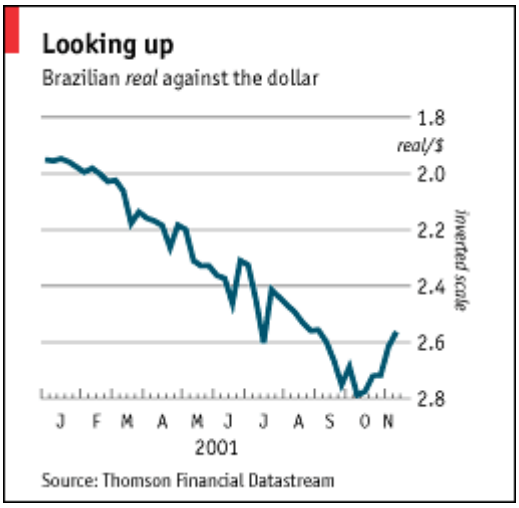
Brazil's economy

Uncoupling

Nov 8th 2001 | BRASILIA
From The Economist print edition

Worries about the public debt are overblown—at present

FOR much of the past year, investors have assumed that were Argentina to default on its debts Brazil would follow suit. Yet this week they appeared to have second thoughts. With Argentina closer than ever to debt default (see article), Brazil's financial markets and its currency, the *real* (see chart), soared to their highest levels since before the terrorist attacks on September 11th.



Brazil's problems are indeed less severe than those of its neighbour. Argentina's fixed exchange rate, high borrowing costs and fiscal weakness have trapped it in recession. Since 1999, Brazil has combined a floating exchange rate with a tight fiscal policy—but also the largest current-account deficit of any emerging economy. Until recently, foreign investment was plugging the gap in the balance of payments. No longer: in essence, Brazil's problem this year has been one of having to adjust to the abrupt drying-up of foreign financing. Foreign direct investment will fall to $19 billion this year and $16 billion next year, down from $33 billion in 2000, according to the Central Bank.

Most of the adjustment has now taken place. A weaker currency and higher interest rates have slashed imports, and pushed the economy towards recession. The Central Bank forecasts that the current-account deficit will fall to $20.6 billion next year, from $24.6 billion last year and $33.4 billion in 1998. But since much of Brazil's domestic debt is linked to the dollar or interest rates, its cost has also risen. The ratio of public debt to GDP will rise from 49.5% last year to perhaps 57% this year. Debt-service payments will be as much as 11% of GDP this year, up from just 4.5% last year, reckons CSFB Garantia, an investment bank. Nevertheless, “even if credit markets are completely shut for Brazil for two years, a sovereign default is very unlikely,” says Rodrigo Azevedo of CSFB Garantia.

Why? The answer is that nobody expects the currency to weaken much further, at least in the short term. So the impact of devaluation on the cost of the debt should be short-lived. Foreign-debt payments due next year total only $8.5 billion (excluding those to the IMF). Since 1999, the Central Bank has worked hard to lengthen the term of the domestic debt, which at 525 billion *reais* ($200 billion) accounts for three-quarters of total public debt. As a result, only about 30% of this now falls due each year.

Meanwhile, the weak *real* should help the trade balance. In mid-October, in real terms, the exchange rate was where it was in 1991, when Brazil had huge trade surpluses, according to Arminio Fraga, the Central Bank's president. He forecasts a trade surplus of $5 billion next year, compared with a deficit of $700m last year.

The key to the government's ability to continue to service its debt is its commitment to a primary fiscal surplus (ie, before debt payments) of 3.5% of GDP. The big question is whether the next government will want to stick to this. Luiz Inacio Lula da Silva, the candidate of the left-wing Workers' Party in next year's presidential election, favours a “negotiated restructuring” of the debt, as does Ciro Gomes, a centre-left candidate. If Argentina's default is followed by recovery, the government's candidate, whoever he may be, may also favour renegotiation. Brazil's biggest financial problem is not its neighbour's woes. Rather, after eight years of Fernando Henrique Cardoso, it is uncertainty about what comes next.

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Endangered animals

Monkey business

Nov 8th 2001
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A deadly but lucrative trade

IN PARTS of Brazil's poor north-east, snakes and parrots are on sale by the roadside for a few *reais*. In Brazil, as elsewhere in Latin America, wild animals have been kept as pets for centuries. But in recent years they have become the target of a vast and flourishing illegal trade that is threatening the survival of some species. Governments and others are now trying to do more to end the trafficking.

In Brazil alone, the trade in animals is worth $1 billion a year, according to the National Network Against the Trafficking of Wild Animals (RENCTAS), a coalition of NGOs. Some of the sellers are simply the rural poor, seeking a means of subsistence. Others, especially those involved in exports, are organised networks. The buyers include pet shops, pharmaceutical laboratories and foreign collectors.

Most of the animals—from snakes and monkeys to birds and spiders—are captured in the Amazon basin or the north-east and taken to Brazil's richer south, where they are sold locally or shipped to North America, Europe and Asia. The animals are often kept in appalling conditions—sedated parrots may be stuffed into plastic tubes, or have their eyes pierced or wings broken to discourage escape. The result: nine out of ten animals die. Some 12m animals are taken from the wild each year by the traffickers, according to RENCTAS.

Although 70% of traded animals are sold within Brazil, the international market is far more lucrative. A golden lion tamarin, a handsome red monkey, sells for $20,000 in Europe, compared with just 500 *reais* ($190) in Brazil. A chopi, a kind of blackbird, fetches 80 *reais* in Brazil's southern cities, but $2,500 in the United States.

The international trade in animals is regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which most Latin American countries have signed. Brazil has gone further, banning all trade in wild animals, whether endangered or not. Critics say that by pushing the trade underground, this has made it harder to regulate. In any event, Brazil lacks inspectors, and perhaps the will, to enforce the ban.

Some of Brazil's neighbours have looser rules. Many Brazilian animals are smuggled across the country's long northern borders to Venezuela, Colombia or the Guyanas, whence they are exported with fake documentation. Efforts are now under way to improve regional co-operation. In July, in the first meeting of its kind, representatives from the United States' government, Interpol and CITES met Latin American officials and NGOs in Brasilia.

What about the importing countries? The United States Fish and Wildlife Service carries out inspections at airports, and investigates smuggling networks. Each year it handles 4,500 cases involving the import or export of animals. Under the Lacey act, American animal traffickers who break foreign laws can be prosecuted at home. Smugglers are regularly picked up in Miami: a Nicaraguan was caught last year at the airport with “Christmas gifts” that included over 1,100 sea turtles' eggs. Tony Silva, a well-known exotic-bird fancier based in Chicago, was jailed in the mid-1990s for heading a ring importing rare parrots from South America.

In an effort to deter would-be buyers, RENCTAS is working with tourism bodies to teach unsuspecting foreigners visiting Brazil that they should forget about wildlife souvenirs. But in the long run the trade will be stopped only if incentives are generated to deter the rural poor from providing the raw material. Eco-tourism projects have spread across Latin America over the past decade, and the CITES secretariat is backing plans for more. The best hope for parrots is to become more valuable in the wild than in a plastic tube.

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The Caribbean economy

Laid up

Nov 8th 2001 | PORT OF SPAIN
From The Economist print edition

Only drugs are moving

EVEN in the best of Octobers, Caribbean hotels do not bustle. But last month was disastrous, as American tourists stayed at home after September 11th. Barbados, less dependent than its neighbours on the American market, forecasts that it will receive up to 30% fewer tourists than normal in the last three months of the year. To cap it all, Hurricane Michelle swept through the Caribbean this week, killing five people and causing extensive damage to farms in Cuba, and flooding in the Bahamas.

These setbacks come at a bad time. Sugar, rum and bananas, the Caribbean's agro-industrial mainstays, all face tougher competition than in the past. And the war on terrorism means close scrutiny of Caribbean tax havens.

The crunch for the tourist industry will come in December, when the winter season begins. Bookings are scanty, even at cut-price room rates. The main hope is that cruise lines will pull vessels from the Mediterranean, perhaps adding 15,000-18,000 berths for short-hauls from Florida. Belize expects as many as 300,000 passengers next year, up from 24,000 in the first nine months of 2001.

But cruise lines are undercutting shore-based hotels, often charging less than $60 a day, meals and entertainment included. Seaborne tourists spend little ashore. And the cruise operators are pressing governments to pay for divers to inspect hulls for bombs while also insisting on lower port charges.

Looking ahead, the tourist trade may slowly recover, at the expense of resorts in the eastern Mediterranean and Indian Ocean. But meanwhile the only business booming in the Caribbean is illegal drugs. Record seizures last month included 1.2 tonnes of cocaine in Jamaica, and 1.5 tonnes recovered on a beach in Belize when police intercepted a panicky gang who had dug their stash out of the sand just ahead of Hurricane Iris.

Some American sources reckon the flow of drugs across the Caribbean has increased by a quarter. The reason? Since September 11th, the United States has withdrawn some radar-carrying AWACS planes from airborne drug patrols, and pulled coastguard vessels northwards. More rigorous inspections of vehicles crossing Mexico's border with the United States and searches of ships off the American mainland mean that drug smugglers are likely to rely increasingly on island-hopping routes. All in all, the world has changed in unpleasant ways for the Caribbean's small and mini-states.

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Guns in China

The wild east

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From The Economist print edition

Armed crime is rising sharply in a country that once prided itself on its law-abiding orderliness

ONE midnight last month, two brothers and another man went on a killing spree with a double-barrelled shotgun in Dayukou, a mining village 500km (310 miles) south-west of Beijing. Within an hour they had killed 14 people and seriously injured three others. Among the casualties were four village officials.

China once haughtily regarded crimes involving guns as a manifestation of American decadence that hardly affected its own, better regulated, society. In urban China at least, this may have been true a decade or more ago. But now even official publications admit that the numbers of gun-related crimes are soaring—though they are still far less common than in the United States—and that a huge black market has developed for everything from shotguns to fully automatic assault rifles.

Official figures offer no basis for useful comparisons with America. China's police release only minimal statistics. These do not include the number of people killed or injured by gunfire, or the number of crimes involving firearms. “The government thinks it's a government affair,” says Bai Jianjun, a criminologist at Beijing University. The only gun-related figure included is the number of cases involving breaches of the firearms regulations— 26,456 last year, up nearly 7%. But these cover only misdemeanours such as unregistered possession of a hunting gun. Moreover they include only those cases that the police have chosen to investigate—and a book published last year by the Chinese People's Public Security University suggests that even among serious offences (of any type) only 30% of reported crimes are in fact investigated.

Less official sources offer occasional clues. According to *China News Week*, more than 500 police officers died in the line of duty last year, up from about 360 in 1996. The magazine quoted “experts” as saying the increase was related to the rise in armed crime. Another report, published in May, said that armed crimes increased by 26% in 1994. Despite a national campaign in 1994 to tighten control of firearms, armed crimes rose a further 19.5% the next year. In the first half of the 1990s, said a study published in 1998, more than 10,000 armed crimes were recorded, two-thirds of all violent crimes in China.

China certainly has stricter gun-control regulations than the United States, including a law introduced in 1996 which stipulates that even the crude hunting guns commonly used in the countryside must be registered with the police. But criminals determined to acquire a gun can do so with relative ease. Soaring demand for firearms has ensured a good supply. Many are smuggled in from Vietnam and Myanmar, and increasing numbers come from the Central Asian states. Others are manufactured illegally in China itself, or stolen from the sometimes ill-guarded stores of rural militias and the police. Chinese military pistols were used in a series of crimes in Hong Kong this year.

Demand for firearms is being fuelled mainly by a surge in organised crime. Having prided itself on all but wiping out criminal secret societies after the Communist takeover in 1949, the government admits they are now coming back with a vengeance. The police in Fujian province, on the coast facing Taiwan, say they have evidence of over 40 Japanese, American and Taiwanese triads operating there. The gangs are usually supported by corrupt officials, including police.

Members are recruited both from the growing ranks of the urban poor—the millions who have lost their livelihoods as a result of economic reforms—and among the rural unemployed, tens of millions of whom

have been drifting into urban areas in recent years in search of work. The gangs engage in kidnappings and robbery. They smuggle drugs and guns and run the burgeoning sex industries of urban China.

Organised crime has even penetrated the party elite. Last month, courts sentenced 16 officials for involvement in corruption involving organised crime in the large city of Shenyang in the north-east. Among them were the former mayor and a deputy mayor. Both received death sentences, though the ex-mayor's was suspended for two years. Dozens more officials are expected to be tried.

Most residents of big cities in China, though increasingly worried about burglary and mugging, are not especially concerned about gun-related violence. In rural areas and smaller towns, however, armed attacks and robberies are becoming increasingly common. Ill-protected rural banks are frequent targets, especially during the lean winter months. In May, the authorities executed 14 members of a gang accused of a series of murders and bank robberies in central and southern China. They allegedly had an arsenal of 15 military guns, 23 shotguns, a hand grenade and two anti-tank grenades.

Since early this year, the police have been engaged in one of their periodic “strike hard” campaigns against crime. The figures hint at the scale of the problem. Even in the well-ordered capital, the police seized over 100 hand grenades and 1,500 guns of various kinds between April and August. In the country as a whole, they confiscated 600,000 guns, including 8,800 military weapons, between March and June. That brings the total for the past five years to an extraordinary 2.4m guns. How many more are still out there?

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Hunger in North Korea

Also with us

Nov 8th 2001 | BEIJING
From The Economist print edition

Aid agencies fear Afghanistan's plight may distract attention from North Korea's

FAMINE relief for North Korea has competition. Later this month, the UN's World Food Programme (WFP) will announce its annual appeal for emergency food aid for the impoverished country. But the post-September 11th rush of aid to Afghanistan and Pakistan will make it more difficult this year for North Korea, at present the world's largest recipient of WFP food aid, to get what it needs. Donor fatigue is setting in.

Conditions in North Korea remain grim, but not as bad as last year when the country suffered a severe drought. The harvest this year has been relatively good. “There is some evidence that the economy is stabilising,” says a westerner who monitors North Korea's aid and development programmes. Even so, North Korea is still far from being able to feed itself. The WFP will appeal for 610,000 tonnes of food this year, compared with the 810,000 tonnes it asked for in 2000.

Despite the slightly reduced demand, the UN's humanitarian co-ordinator in the capital, Pyongyang, David Morton, says the Afghan problem will make it “much more difficult for us to get the required aid” for North Korea. And that is not all that the country needs. WFP aid is earmarked for children, the elderly and women who are pregnant or breast-feeding. The agency estimates that a further 860,000 tonnes of food aid will be required for the rest of the population. China has promised 200,000 tonnes. The remainder will have to come from other governmental donors. They have not been rushing to make pledges.

Last year, despite donations from South Korea in addition to the WFP's support, North Korea received 500,000 tonnes less food than it needed. Widespread starvation was avoided only with the help of wild food scavenged from mountainsides or purchased (don't tell western taxpayers) from farmers' markets. Aid experts believe the best of the crops grown in North Korea go to feed the party men and the armed forces. Other people, particularly those in big industrial cities, depend on donated food—often of lower quality.

In the end, however, the biggest contributors to the WFP's North Korean aid efforts—the United States, Japan and South Korea—will not want to see the country slide into a famine that could undermine stability on the peninsula. Nor will any of North Korea's neighbours want to handle an even bigger exodus of hungry migrants than is already under way (mainly into China). Even if the WFP fails to get what it wants, the usual donors will find a way of helping it to muddle through.

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Japan's government

Will the lady go?

Nov 8th 2001 | TOKYO
From The Economist print edition

Ructions in Junichiro Koizumi's cabinet

Get article background

FOREIGNERS may not have noticed the difference, but Japanese diplomacy has “ceased to function”, according to the *Yomiuri* newspaper, Japan's most popular daily. For this grave state of affairs, blame Makiko Tanaka, Japan's foreign minister. Mrs Tanaka's supposed crimes mount daily. She lost a ring, and accused a staff member of stealing it. She threw tantrums about the invitation list for the emperor's autumn garden party. Heaven forbid, she seems even to have her own opinions about foreign policy. Naturally, the voices of reason are unanimous: Mrs Tanaka must go.

In truth, Mrs Tanaka's card has been marked from the start. It is not that she is hopeless at her job. True, her grasp of foreign affairs can sometimes seem shaky, but that is hardly a novelty for a Japanese foreign minister. Her behaviour is a little erratic from time to time: she has taken to locking ministry officials in, and out of, their offices, for instance, and screaming at them. But great figures often have eccentric streaks. The mudslinging in the press says more about the petty vindictiveness of foreign-ministry bureaucrats than about Mrs Tanaka's particular shortcomings. What has hurt most, however, is the enmity of Yasuo Fukuda, the chief cabinet secretary. Mr Fukuda's star is rising, and he wants Mrs Tanaka's job.

Mild-mannered and cautious in public, Mr Fukuda has quickly established himself behind the scenes as the only real heavyweight in the cabinet of Junichiro Koizumi, the prime minister. The son of a celebrated former prime minister, Takeo Fukuda, Mr Fukuda has connections among Liberal Democratic Party (LDP) grandees that have become indispensable to Mr Koizumi, who is struggling to take on his party's vested interests.

So far, Mr Fukuda has played a shrewd game. He has blocked Mrs Tanaka's attempts to move her enemies in the foreign ministry to new jobs. In return, ministry officials have briefed him on policy, while keeping Mrs Tanaka in the dark. It was Mr Fukuda, it is said, who brokered the recent diplomatic reconciliation with China, for instance. Japan's scurrilous weekly news magazines call Mr Fukuda “the real foreign minister”. His supporters in the LDP are agitating for a cabinet shuffle.

This has put Mr Koizumi in a tight spot. Mrs Tanaka landed the foreign ministry because her support for Mr Koizumi was crucial in lifting him to power in April. The press has since been turned against her. But Mrs Tanaka is still hugely popular with the voters, who admire her sharp tongue, quick wits and penchant for abusing the foreign ministry's haughty mandarins. With his party and officialdom against him, Mr Koizumi limps on only because of his public popularity, part of which he owes to Mrs Tanaka. Mr Koizumi cannot afford to sack her. Quite the contrary: she is essential to his survival.

Caught between two indispensable warring colleagues, Mr Koizumi seems to have decided, in sadly characteristic fashion, to do nothing. The bureaucrats are at fault, he says, but so is Mrs Tanaka. A cabinet shuffle, he says, is out of the question.

Since Mr Koizumi will not sack his foreign minister, Mr Fukuda is now trying to persuade Mrs Tanaka to resign by “filling in the castle moat” around her, as the Japanese idiom has it. The spadework began this week, when Mrs Tanaka found her request to attend the G-8 foreign ministers' talks in New York this weekend turned down by a committee of the Diet, which must approve all ministerial trips abroad at times when the Diet is sitting. The committee's chairman, an LDP elder, maintained that Mrs Tanaka's skills were needed for parliamentary debate on supplementary budgets. Mrs Tanaka appealed to Mr Koizumi, who has conveniently been travelling abroad. He may have felt tempted to stay there.

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Buddhists in Thailand

Unenlightened

Nov 8th 2001 | BANGKOK
From The Economist print edition

Thai women want to become monks

AP

Boys only

SOME 2,500 years ago, Buddha told his disciples that “the path to liberation is open to both men and women.” Unfortunately, his words were not always heeded in Thailand, where today women may not be ordained as monks, and young girls are barred from the religious schools that are often the only form of education for impoverished children.

Now, however, a female scholar of Buddhism is trying to smash Thailand's saffron ceiling. Since women cannot be ordained in Thailand but can in Sri Lanka, Chatsumarn Kabilsingh, who has written 40 books on Buddhism, this year went to Sri Lanka to be ordained as a novice monk. Returning home, Mrs Chatsumarn gave up her husband and family life—monks are meant to be celibate—and is now trying to build a female religious community near the capital, Bangkok.

Many male monks and religious scholars have lashed out at Mrs Chatsumarn. Phra Dhepdilok, an abbot at Wat Bohoniwet, Bangkok's main Buddhist temple, has argued that allowing women to be ordained would weaken Buddhism, since female monks could be attacked and raped. A leading Thai television channel has twice cancelled shows featuring Mrs Chatsumarn, allegedly because of pressure from the Buddhist clergy.

Other, more moderate religious leaders have suggested that Mrs Chatsumarn and other women should be ordained as *mae chis*, or nuns. Like monks, the white-robed nuns shave their heads, take vows of celibacy and live off charity from the public. Yet most Thais look down upon nuns; a Thai tradition holds that only women who have gone through bad love affairs become *mae chis*.

In the end, however, Thailand's Sangha, or Buddhist council, may have no choice but to accept female monks. In recent years the number of young Thai men who have been ordained as monks has dropped precipitously, partly because of public revulsion at a series of sex, drugs and murder scandals involving monks. Male ones, of course.

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Singapore's election

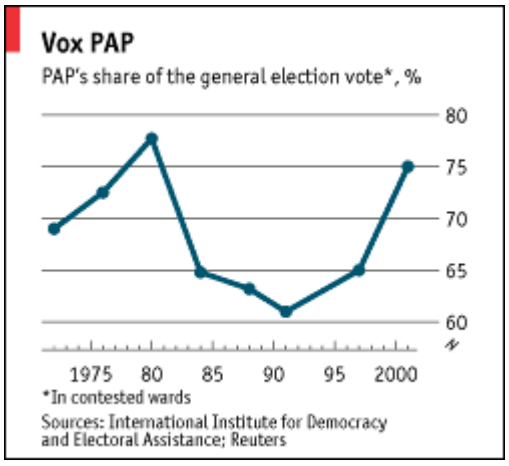
Opposition routs ruling party

Nov 8th 2001 | SINGAPORE
From The Economist print edition

Just kidding

IF SINGAPORE'S opposition were ever to make the slightest headway against the ruling People's Action Party (PAP), the election on November 3rd was surely its best hope. The worst recession since independence in 1965 has taken some of the shine off the PAP's reputation for flawless economic management. Besides, after winning only two of Parliament's 83 seats in the previous election, in 1997, the opposition could scarcely do any worse. And yet, somehow, it did. Its share of the vote declined from 35% to 25%. It did keep its two seats, but by sharply reduced margins: in one, it scraped in by just 751 votes. The PAP can now rule more or less unopposed for another five years, to add to the 42 it has already clocked up.

Some attribute the PAP's lock on Singaporean politics to the electoral system, which certainly operates to its benefit. The first-past-the-post method has helped to limit the opposition to a handful of seats, even when it has won more than a third of the votes. The government decides the timing of the vote and the length of the campaign. Constituency boundaries can change at each election, according to government whim. The registration procedures for candidates are unnecessarily complicated: out of the 34 opposition candidates, five were disqualified because of a mistake on a form. Even more insidiously, the government keeps a record of each voter's ballot number, fomenting doubts—however unfounded—about whether the ballot is really secret.



The PAP also resorts to more underhand tactics. It answers any ill-advised criticism with a salvo of lawsuits. Bankruptcy brought on by libel actions—not all of them related to the PAP—put an end to the political career of J. B. Jeyaretnam, the first opposition figure ever to win a seat in Parliament. In this election the PAP's leaders were at it again, threatening to sue Chee Soon Juan, the head of the small Singapore Democratic Party, for a misleading statement he made about a loan the government offered to Indonesia in 1997.

PAP campaigners also regularly promise to promote housing estates that vote for their party to a place higher up the waiting-list for state-financed improvements. In this election, Goh Chok Tong, the prime minister, went further, promising to favour any ward in Hougang, an opposition constituency, that gave over 45% of its votes to the PAP. Bribes like that were on top of the S$2.7 billion ($1.48 billion) in “New Singapore shares”—a sort of government bond given to poorer and older citizens some of which could first be cashed in, by chance, the day before the poll.

Despite all these obstacles, however, there is nothing to stop Singaporeans voting for the opposition if they really want to. They simply don't. Indeed, they do not seem very worked up about politics at all. On election day, the crowds in the shopping malls were bigger than the queues in the polling stations. The comparison is not as flippant as it sounds: it is thanks precisely to the PAP's economic policies that Singaporeans can afford their sneakers and mobile phones.

The PAP is also good at reinventing itself. As Singaporeans have become better educated its candidates have become less aloof and hectoring, and more personable and telegenic. They are careful to keep the grassroots happy: Lee Hsien Loong, the deputy prime minister, explains how the PAP helped procure the permits for a temple festival in a constituency where the party was in trouble. Opposition figures admit that younger voters are attracted to the PAP's language of modernity and development, and that it is

older voters who feel alienated by Singapore's rapid transformation. So the opposition's support may shrink even more.

George Yeo, a minister, explains that the PAP's ambition is to cater to all Singaporeans, not just one particular group. These are not just platitudes: the PAP's strength lies in preserving the broadest of churches, co-opting its gentler critics, and depicting the remainder as extremists beyond the bounds of tolerable opposition. During the campaign, Mr Goh kept drawing a distinction between the opposition candidates he considered acceptable and the ones he put beyond the pale. The two who won were Mr Goh's favourites.

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Tension in Central Asia

Inside the valley of fear

Nov 8th 2001 | NAMANGAN
From The Economist print edition

Uzbekistan's government confronts the militants

THE Fergana valley is sometimes called the tinderbox of Central Asia. In the streets of the fast-growing town of Namangan, the eye can pick out bits of tinder. The Muslim men in their traditional black pillbox hats contrast with miniskirted young girls. The dour, functionalist government offices, a legacy of Soviet times, overlook sprawling, noisy oriental bazaars. This could pass for a scene of tolerant multiculturalism, except that at every street corner stand groups of grey-uniformed police. Security is tight and has recently become much tighter. On the 300km (190-mile) journey from Tashkent, the capital of Uzbekistan, this correspondent's car was stopped on ten occasions at checkpoints guarded by Kalashnikov-toting soldiers. For Uzbekistan's government, the Fergana valley is a big worry.

The Soviet Union once kept a firm grip on the valley, home to a third of Uzbekistan's population of 24m. It was an important source of cotton as well as oil and other minerals. After the Soviet Union broke up in 1991, there was an explosive religious revival. Militant Islamic groups following the strict teachings of the Wahhabi, a Saudi Arabian group, set up their own security force, demanding the imposition of Islamic *sharia* law and a share of power in the valley. They gained a huge following at the expense of moderate Muslim groups.

When Islam Karimov, Uzbekistan's former Communist leader, became president of the new country, he set about crushing the militants. Thousands were jailed, with their families. Others went into exile, among them Takhir Yuldash, who had been Mr Karimov's fiercest opponent, and Jumabai Khojiev, who in 1998 formed the Islamic Movement of Uzbekistan (IMU), a guerrilla group now said to be fighting alongside the Taliban in Afghanistan. Mr Yuldash has become the IMU's political leader, and Mr Khojiev is believed to be a deputy of Osama bin Laden.

Mr Khojiev (who also calls himself Juma Namangani, after his home town) has said his aim is to spread a Taliban-style Islamic revolution throughout Central Asia. The IMU has carried out a number of raids on Uzbekistan from Kirgizstan and Tajikistan, which share parts of the Fergana valley. The group is accused of having set off bombs in Tashkent in 1999, apparently in an attempt to kill President Karimov. Mr Karimov is now hoping that the United States will help him destroy the IMU in return for the Americans' use of the Khanabad air base close to the Afghan border. The IMU was placed on America's list of terrorist organisations in 2000.

How much of a threat the IMU still poses in the Fergana valley is a matter of dispute. Some claim that support for the group has merely been driven underground, not eliminated. But even those with no time for militant Islam are certainly not pleased with the government either. Unemployment is widespread, and so is corruption. Those with jobs are poorly paid. Even doctors earn only $15 a month, teachers $10. There is a desire for democracy and the rule of law.

The timeless, bucolic appearance of the countryside, with its neat apricot orchards, villages of low white houses and winding roads lined with mulberry trees to feed the silkworms, belies the harsh reality. In return for their produce, farmers are paid by the state up to a year late and then often only in grain or cooking oil. The state decides what crops they grow, and the harvest is turned over to officials, a much-resented practice retained since Soviet times.

Moderate religious leaders may not favour the extremists, but they resent the closure of all but 120 of the region's nearly 1,000 mosques, together with the banning of religious instruction at home and the appointment of government supporters to manage mosques and religious schools. Some young professionals in Namangan think the lack of any political freedom is driving people into the arms of the IMU. A retired academic says the overriding problem is simply poverty, and its solution economic reform. But the prospect of change under the Karimov government seems slim. The regime seems sure that it can keep the area under control, aided perhaps by the Americans. Sooner or later, the tinder could ignite.

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Uganda and Rwanda

Tea and talk on the edge of war

Nov 8th 2001 | KAMPALA, KIGALI AND LONDON
From The Economist print edition

AP

Britain is trying to avert a threatened war between Rwanda and Uganda

AT THE beginning of this week, Uganda and Rwanda were on the brink of a pointless war. After a meeting in London on November 6th, brokered by the British government, both seemed to step back from the inferno. Yoweri Museveni and Paul Kagame, the presidents respectively of Uganda and Rwanda, emerged from six hours of talks sounding calm and reasonable. Both promised to extradite each other's rebels instead of sheltering and encouraging them, as each had accused the other of doing but naturally denied doing themselves. Both said they were anxious for peace. “The people of Uganda do not want trouble,” said Mr Museveni (on the right in the photograph). “There is no reason for war.”

Indeed there is not. Neither side has anything to gain, and both have much to lose. And yet the talk in both countries has been of little else for several months.

Rwandan and Ugandan soldiers first started shooting each other in 1999 in Kisangani, a town in war-riven Congo. The two armies were supposed to be allies, intervening on the side of the Congolese forces rebelling against Congo's president, the late Laurent Kabila. But the two governments fell out over strategy, and ended up backing different rebel factions. The battle flared again last year, and tempers have remained brittle ever since.

During his campaign for re-election earlier this year, Mr Museveni declared Rwanda a “hostile nation”, largely because he suspected the Rwandan government of financing his main opponent. In August, in a letter to Clare Short, Britain's minister for international development, he reportedly predicted an imminent Rwandan invasion. To fend it off, he asked for indulgence to double his defence budget, which is limited by an agreement with the countries that give Uganda aid.

The tiff is all the more baffling because Mr Museveni and Mr Kagame were once comrades-in-arms. Mr Kagame, then an exile in Uganda, fought to help bring Mr Museveni to power in 1986, and rose to become his intelligence chief. Mr Museveni then helped Mr Kagame to seize power in Rwanda in 1994, when he invaded to halt the genocide there.

Relations between the two men were excellent until they became embroiled in the Congo war. Both Rwanda and Uganda sent troops into eastern Congo to stop their own domestic rebels from using their vast neighbour's lawless jungle as a base from which to attack. Officers in both armies have also, like everyone fighting in

Congo, engaged in a fair amount of plunder.

Alliances continue to shift rapidly. Uganda has withdrawn some of its troops, reportedly ditched the MLC, the Congolese rebel group it created, and started to back a splinter group called the RCD-ML. The MLC has joined forces with the RCD-Goma, the Congolese rebel group backed by Rwanda. The situtation is unpredictable, but some analysts think that Rwanda and Uganda will come to blows, either directly or by proxy, in Congo's North Kivu province, where both armies operate.

Aggravating all this is a clash of personalities. Mr Kagame feels patronised by his former boss, who refers to the Rwandan army as “boys”. Mr Museveni feels slighted by his former subordinate, for not showing him the respect due to an elder.

The mood at the meeting in London was cordial, almost like a family gathering: many of the Rwandan bigwigs have Ugandan wives or relations, and vice versa. But family feuds can be vicious. Earlier this month, Mr Museveni promoted Major-General James Kazini, the officer Rwanda blames for the fighting at Kisangani, to the top post in the Ugandan army. But there was a hopeful sign of improvement on November 8th when the Ugandans released a Rwandan official who, the Rwandans said, had been “kidnapped” earlier in the week.

Many people remained sceptical of their leaders' intentions, particularly since the promises made in London sounded similar to ones made before. “Peace does not reside in agreements and signatures but in the hearts of men,” said a Ugandan newspaper editor.

Perhaps the best reason for optimism is that Britain, which is a big donor to both countries, is determined to keep them from fighting. Donors tout Rwanda and Uganda as among the most successful examples of how foreign aid can spur development. Both countries have recovered remarkably from periods of murderous chaos. Both also remain poor and heavily dependent on aid, so donors have considerable leverage. It helps too that Ms Short is trusted by both presidents: Mr Museveni calls her “an old freedom fighter”.

Donors are often justly chided for using aid for selfish political ends, or for attaching too many petty conditions to it. But if aid is supposed to attack poverty, it is rational to insist that its recipients do not attack each other. Countries have a right to self-defence. But if Rwanda and Uganda fight over trivia, there is good reason why aid should cease until they stop.

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Angola and its ruler

Dos Santos will just go, he says

Nov 8th 2001
From The Economist print edition

Angola's president promises to retire before the next election. Will he?

AP

LONGTIME rulers, particularly in Africa, are notoriously unwilling to let go. But Jose Eduardo dos Santos, Angola's president for the past 22 years, has announced that he will voluntarily step down as president both of his party, the MPLA, and of the country, when the next election is held. A win for democracy? Yes, except that many Angolans suspect that Mr dos Santos could yet be “persuaded” to change his mind, particularly as the date for that election remains far in the future.

The president came to power in 1979, four years after Angola won independence from Portugal. He has presided over 18 years of civil war—and the ensuing destruction of his country. Angola today, for most people, is a truly awful place to live in, with widespread penury, the second-highest child mortality rate in the world, and a quarter of the population forced out of their homes by fighting. For a tiny elite at the heart of the MPLA, however, the war, and a booming oil industry, have allowed the amassing of great fortunes.

Reactions to Mr dos Santos's announcement have been cautiously enthusiastic. Opposition politicians, journalists and churchmen have publicly congratulated him on paving the way for a long-overdue overhaul of Angola's political machinery. In private, many Angolans have been less polite in their expressions of delight. After so many years, few can believe that he really will step down. The independent press has speculated that the announcement was a characteristically cunning bluff, designed to elicit protestations of support, and to rally the divided MPLA.

Mr dos Santos's grip on his party appears to have weakened since the resumption of the civil war in late 1998. His credibility was severely dented by his failure to keep his promise to end the fighting by defeating Jonas Savimbi's UNITA rebels. The rebels still wage a vicious guerrilla war throughout much of the country.

The president is now urging his colleagues in the MPLA to choose a successor. But doubts about his sincerity are fuelled by his failure to groom anyone for the post. On the contrary, he has, over the years, dealt most efficiently with any insider who posed a threat to his hold on power. For example, two former prime ministers, both of whom were billed as potential leaders of the MPLA, now live in Europe after falling out with Mr dos Santos.

For the time being, the prospect of the president's retirement remains as hypothetical as the election to which it is pegged. Angolans have only once gone to the polls, in 1992. The war, which renders vast tracts of Angola inaccessible, has precluded the holding of further elections.

Over the past 18 months, however, the president has been expressing interest in the idea of a fresh election, and the legitimacy it would give his government. At first his enthusiasm was clearly based on the assumption that UNITA, the only viable opposition, would have been wiped out by the time the election was held, which, last year, he said would be in late 2001. But as the war dragged on, with UNITA showing no sign of obligingly disappearing, the date has been pushed back, first to 2002 and now to late 2003.

Even so, Mr Santos's announcement of retirement (of himself and, as he puts it, “his generation”) has placed pressure on his old enemy, Mr Savimbi, to reciprocate in kind. The president has tried

everything—military strikes, diplomatic offensives, peace talks—to get rid of the rebel leader but Mr Savimbi, currently hiding out somewhere in the Angolan bush, has proven a consummate survivor. And so far UNITA's only response to the retirement news has been to declare that it does not merit any reaction.

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Iraq under suspicion

Saddam's chill comforts

Nov 8th 2001 | CAIRO
From The Economist print edition

Bad times continue for Iraq, but the threat from America has eased

IT HAS been a grim autumn in Baghdad. Power cuts are frequent. Oil revenues have fallen by a third since September. Not only is there no end in sight to crippling sanctions, but fears loom of terrible vengeance if a link is proved between Iraq and the attacks on America.

The regime still puts a brave face on things. Its media crank out their usual fare: diatribes against America, conferences of the ruling Baath party, and a depressingly thin trickle of cheering achievements. A favoured item lately has been the signing of free-trade agreements with Arab states: no fewer than six have been made this year. They look optimistically to the future since sanctions allow Iraq to export nothing but oil, and to import only consignments agreed to by the United Nations.

The oil-for-food programme runs in six-month cycles. In the current phase, due to end on November 30th, the Iraqi government was expected to be able to budget $5.5 billion for humanitarian supplies and equipment. But it appears that the government, which is allowed access to only 59% of its actual earnings (the rest goes to the Kurds, reparations to Kuwait and UN overheads) will get less than $4 billion. Meanwhile, suspicion of Saddam Hussein's illicit weapons ambitions has prompted America and Britain to block a record number of consignments: some $4.1 billion-worth of goods are on hold.

In recent years Iraq has grown clever at skirting the UN's strictures, earning as much as $2 billion a year in illicit revenues. Yet even here it is being squeezed. According to the American navy, oil smuggling by ship has fallen by half this year, mostly because of increased vigilance by Iran. Overland routes are still active, but subject to falling oil prices.

One relief for Iraq is that the imposition of “smart” sanctions, which would have further curtailed its room for manoeuvre, appears to be off the UN's front burner again. The idea was first done down in May by the threat of a Russian veto. Recently American officials, encouraged by warming relations with Russia, had revived the subject. But it now appears that the Americans are too concerned with ensuring Russian co-operation in Afghanistan, and in revising missile treaties, to push for greater diligence on Iraq. Oil-for-food is expected to be renewed without debate for a further six months.

Another chill comfort is that the talk in Washington about striking Iraq next appears to have cooled. After September 11th and the anthrax scare, efforts were made to find an Iraqi tie to the attacks. Some leads did appear, such as the known production of anthrax (but apparently of a different kind) by Mr Hussein's regime, and purported meetings between al-Qaeda figures with Iraqi agents.

However, for the time being at least, America has backed off. This appears to be partly due to thinner than hoped-for evidence, partly out of respect for Arab allies who fear a resounding backlash if Iraq gets hit, and partly because of the practical need to concentrate on one front at a time.

Iraq, for its part, says that America is plotting to frame it as the culprit, and then use that as an excuse to mount an all-out assault. It is keeping a low profile, desisting from “provoking” the American aircraft patrolling its skies.

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Dubai's spending binge

Looking bold and talking big

Nov 8th 2001 | DUBAI
From The Economist print edition

The biggest and best in a patch of beach and desert

AP

Welcome to Arabia's fun sheikhdom

THE city-state of Dubai is looking to the year 2010. By then, if projections are right, its population will have doubled to top 2m. The number of tourists it attracts each year will have quadrupled to 15m. And its oil production will have dropped to zero. These simple facts help explain why Dubai, one of the seven states that make up the United Arab Emirates (UAE), is embarked on what appears to be a wild spending binge at a time when the world's economy is sunk in gloom.

As other airlines go broke, the latest deal sees Emirates, owned by the Dubai government, announce the biggest order of passenger planes in history. The $15 billion buying programme, equal to Dubai's annual GDP, could add 58 aircraft to the carrier's 36-strong fleet, including top-of-the-line models from Boeing and Airbus.

Yet, like many of the other eye-catching investments Dubai has trumpeted in recent years, the purchase is only partly about cash commitment. Less than half of the aircraft are firm orders. And although these include 22 giant, double-decker Airbus 380s, Emirates is entitled to hefty discounts by virtue of being the first customer for the $230m aeroplane. What is equally important to the commerce-rich but oil-poor sheikhdom is the publicity value of looking bold and talking big.

The need to keep the buzz going is particularly acute just now. Dubai's main sources of income have all been hit by recent events. The flourishing transit trade through its ports has suffered from the general spending caution in the region, plus the steep rises in insurance rates. Tourism, seen as the main vehicle for future growth, has plummeted: Dubai itself is placid, balmy and cheap, but looks uncomfortably close to Afghanistan.

Oil prices are down, and America's anti-terrorist campaign has raised the heat on smuggling and money laundering, lucrative staples of Dubai's free-wheeling economy. To maintain the pace of ambitious expansion plans, the emirate has more than ever to rely on entrepreneurial flair, slick promotion and a reputation as the best place for shopping, schooling, boozing, medical care and making money between Singapore and Europe.

Into its Luxembourg-sized patch of beach and desert, Dubai has already packed such attractions as the world's largest man-made port, its tallest and most luxurious hotel, its most capacious-ever shopping bag (certified by Guinness), and some of the flashiest events on funsters' racing and golfing calendars. It already boasts a Media City, a Gold and Diamond Park, and a $250m Internet City complete with an Ideas Oasis, devoted to the achievement of what it calls e-volution.

This summer Dubai announced the construction of the world's biggest artificial island, a $3 billion luxury housing estate in the shape of a palm tree whose 17 fronds, each 2km (1.2 miles) long, will triple the length of its shoreline. Other projects in the works include a $10 billion housing development called Dubai Marina, a $1.6 billion Festival City, a $150m zoo and a recreation of “Old Dubai”.

The city's airport handled 12.3m passengers last year, and opened a spanking new 20m-capacity terminal. This week Dubai's crown prince, Sheikh Muhammad bin Rashid al-Maktoum unveiled plans for a third terminal: the price tag could be $2.5 billion.

Opinion is divided over whether Dubai can pull all this off. Naysayers, of whom there are plenty, point to the shakiness of its nascent stockmarket and the past two years' 30% fall in rental values as signs of diminished confidence. Referring to the practice of speculating with borrowed money, a local economist accuses the ruling al-Maktoum family of “margin trading with their own economy”. The only thing of value here, he says, is the Dubai brand name.

Yet the same economist notes that Dubai, like the other small emirates in the federation, carries an excellent insurance policy. Neighbouring Abu Dhabi, whose territory makes up 85% of the UAE and has immense reserves of oil, is believed to top up Dubai's 150,000 barrels a day in oil exports with 100,000 of its own. The Big Brother also happens to hold big stakes in Dubai property.

The al-Maktoums themselves are no paupers. Aside from owning more of the world's racehorses than anyone else, they are believed to hold assets worth over $10 billion. Dubai itself is very much a family business. Despite the arch-capitalist atmosphere, half the sheikhdom's top hotels, its airport, seaports, refinery, dry dock, aluminium smelter and two of its three banks, among other assets, are government-controlled. There are no elections of any kind, and the press is essentially a publicity claque for state policy.

Twenty years ago, foreigners, mostly low-paid workers from the Indian subcontinent, made up less than half the population. Now put at 90%, the proportion may reach 95% by 2010. If they begin to demand greater rights, they could prove the real challenge for Dubai's future.

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Europe's foreign policy

Guess who wasn't coming to dinner?

Nov 8th 2001 | BRUSSELS
From The Economist print edition

The campaign against terror has exposed the problems of building a common European foreign policy

IT WAS ludicrous—but quite serious. The row over who was to be invited to dinner with Tony Blair at Downing Street on November 4th exposed just how self-obsessed the EU remains, even in the midst of a world crisis. And it also illustrated just how hard it will be to forge a common European foreign and security policy.

Mr Blair's original idea had been to invite the leaders of France and Germany to dinner to discuss the progress of the war in Afghanistan. Britain, France and Germany are clearly in the forefront of the European diplomatic and military response to the terrorist attacks. Britain is the only European country so far to have taken part in military action. France had pledged troops soon after September 11th. This week Germany promised 3,900 of them. Mr Blair was just back from the Middle East, Gerhard Schröder was just back from Moscow and both President Jacques Chirac of France and Mr Blair were due in Washington. So far, so straightforward.

But then the British got an agitated telephone call from the Italians (see article). Silvio Berlusconi, their prime minister, had been severely embarrassed at home when the British, French and Germans had a similar session in the margins of the EU's Ghent summit last month. Mr Berlusconi, who had (successfully, as it turned out this week) been badgering the Americans to let Italy provide up to 2,700 troops, demanded, and got, an invitation.

At this point, the British felt they had to invite Jose Maria Aznar, Spain's prime minister, too. But what about the Belgians, who currently hold the EU's rotating presidency? And then there was Javier Solana, the EU's high representative for foreign policy. Invitations were duly issued. The pinnacle of absurdity was reached when Wim Kok, the Dutch prime minister, got wind of the dinner and secured a last-minute invitation too, arriving breathlessly 40 minutes into the meal. British beef had never seemed so appetising.

If the British had hoped that the expanded guest list would soothe troubled egos, they were swiftly disabused. The eight EU countries whose leaders were not invited to dinner were furious. “We are being treated like candidates to join the EU,” fumed one small-country representative. “Decisions are made and then we are just informed.” The foreign minister of another small EU state accuses Mr Blair of “putting short-term considerations above the future of Europe.”

The British see the furore as an absurd example of misplaced priorities. When he was asked at Ghent about the row over the first British-French-German meeting, Mr Blair rolled his eyes and commented that it was surely more important, in the circumstances, to make the right decisions, than to fuss about the precise combinations of people in the room. The British also point out that, since military matters are not yet a matter for the EU, there is no ground for a demand that all EU countries must be involved in decision-making. The small countries retort that, in fact, the Downing Street dinner strayed into areas like humanitarian aid and building a post-Taliban government, and that these subjects do indeed fall under the ambit of the EU's common foreign and security policy.

Behind the immediate fuss lies a serious structural issue. The EU's small countries have always seen the Union as their protection against a return to the politics of the inter-war years, when their fates were often decided—behind their back—in smoke-filled conference rooms in London, Paris and Munich. They are alarmed at the prospect of a big countries' “directorate” that might stitch up EU decisions ahead of meetings of the whole club. Some, particularly the British, might respond that as a matter of fact France and Germany have long staged pre-summit meetings that have often decisively influenced later EU deliberations. But bilateral meetings are apparently one thing, gatherings of the larger countries another.

This problem will only get worse when the Union expands, perhaps in 2005, to take in as many as ten new members. Is it really credible that the leaders of Britain, France and Germany will accept that they cannot have a discussion without inviting 22 other European leaders along?

One senior diplomat suggests that the EU might take a leaf out of NATO's book. Formally speaking, NATO's 19-member council takes all the alliance's decisions. In reality, the United States is the driving force and the decisions that matter are taken before the formal meetings. But the NATO model might not work for the EU since no single European country is strong enough to assert such leadership.

Most Europeans grudgingly grant that the combination of Britain's closeness to the United States, its military muscle and Mr Blair's personality have given him a much more prominent position in the current crisis than other European leaders or the EU as a whole. So some European diplomats are interpreting Mr Blair's recent actions as a bid to emerge as a de facto European leader. The British tend to dismiss such suggestions with irritation, regarding it as self-evident that bigger issues are at stake. All the same, Mr Blair may come to regret the botched handling of his Downing Street dinner. Having caved in to pleadings to lengthen the guest list, he may now find it a lot harder ever to arrange a British-French-German get-together again.

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Italy's foreign policy

Better late than never

Nov 8th 2001 | ROME
From The Economist print edition

Italy's new government has been struggling to make its mark abroad

Reuters

A diner at the Downing Street trattoria

IT WAS bad luck for Silvio Berlusconi: in his first months as Italy's prime minister his biggest test has been in foreign affairs and defence, neither of them his favourite topics. But at last he has clambered fully aboard the West's coalition against terror.

Though Italy already has 8,000 of its best troops in the Balkans, the government has now promised 2,700 for Afghanistan. Italy's aircraft carrier is ready to sail. Harrier and Tornado aircraft and anti-biological-warfare units are part of the kitbag. And on November 7th, for all the hostility of Greens and Communists, and moans from many on the left, parliament voted yes. To his credit, Mr Berlusconi defied the voters too: pollsters say over half of them want Italy to stay clear of any fighting.

Yet the prime minister neatly lined up his centre-right coalition behind his pro-American stance. On November 10th, he will lead a rally in Rome for what he calls (in English) “USA day”. Eager to join the flag-waving, Milan's city government will deliver an Italian tricolor to its 700,000 households, over the grimaces of Mr Berlusconi's Northern League partners.

The left's disarray is a nice bonus for him. Whereas the Greens, old-guard Communists and some others want peace at any price, most of the post-communist Democrats of the Left and Francesco Rutelli's centre-left Margherita (Daisy) group think they have no choice but to back the government. To deepen the left's confusion, the Democrats of the Left are due to pick a new leader at a party conference next week: possibly Piero Fassino, a sensible former foreign trade minister.

Mr Berlusconi had had an edgy start abroad as well as at home. His comments about the alleged inferiority of Islam were, at best, rash. He clashed with Renato Ruggiero, his foreign minister, who has not seen eye to eye with the defence minister, Antonio Martino. And he was humiliated by being shut out of the big boys' meeting of Britain, France and Germany before the EU's Ghent summit last month.

But things may be getting a bit better. He showed some mettle this week—and at least he managed to shove his way into that dinner at Downing Street.

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French justice

Oh-la-la!

Nov 8th 2001 | PARIS
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Why it is hard for the French not to be cynical about their system of justice

TAKE the events of just one day, November 7th. The prime minister, Lionel Jospin, agrees to testify to a judge investigating alleged irregularities in the Socialist Party's financing a decade ago. Mr Jospin's sometime finance minister, Dominique Strauss-Kahn, is freed by a Paris court from the last remaining judicial assault on his financial and political probity. And one of Mr Jospin's junior ministers announces that the practice of doling out undeclared (and so untaxed) envelopes of cash to ministers and their staff will end; from January 1st these “special funds” will be included in their recipients' payslips, and be subject to tax and social-security levies. The dawn of a new era of openness?

Humph. The political right, quite as tarnished by scandal as the left, asks why it took so long to end the abuses of the special funds, and hints that Mr Strauss-Kahn has benefited from politically-inspired leniency—to which the left ripostes that his trouble arose from politically-inspired enmity. Neither side, in sum, is as much concerned with openness as with next year's presidential and parliamentary elections.

Mr Jospin could hardly dodge the judge and still retain his reputation for integrity. And changing the rules on the special funds reminds voters of how their conservative president, Jacques Chirac, has both used these in the past for jet-setting family holidays and now refuses to testify about them and other embarrassing matters, citing presidential prerogative.

In the end, what matters most may be Mr Strauss-Kahn's rehabilitation. He has had to keep out of sight and watch the government lurch left. Now “DSK”, a clever man, as even his enemies admit, can openly help Mr Jospin get back on track in his bid for the presidency.

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France and Corsica

Tangle of the isle

Nov 8th 2001 | PARIS
From The Economist print edition

The French prime minister risks being damaged by wrangles over Corsica

JUST over a year ago, on October 3rd 2000, France's prime minister, Lionel Jospin, told parliament that the idea that Corsican separatists suspected or convicted of terrorism should be held together in the same jail in Corsica was “neither possible nor advisable”. Yet, on a recent visit to France's perpetually troubled island, Mr Jospin's interior minister, Daniel Vaillant, announced the government's intention to do precisely that, in a special centre in Corsica's Borgo prison.

Cue for uproar back in Paris, where conservative politicians lined up to accuse the government of “yet again” selling out to terrorism and where the conservative-dominated Senate spent three days this week putting spanners in the Socialist-led government's carefully worked peace plan for the island. The Senate objects to the devolution of law-making powers to Corsica, to a provision requiring the island's schools to offer courses in the local language, and to a law that would let Corsicans decide for themselves how to develop the coast. Mr Jospin now has to convince supporters and opponents alike that his 16-month-old peace plan for Corsica is still on track.

Unfortunately, however, the proposals, though welcomed across the Corsican political spectrum, have not brought peace. For example, on the eve of Mr Vaillant's visit to the island, yet another murder took place in the murky world inhabited by Corsica's separatists and gangsters. It was the 28th such killing of the year. And on the eve of the Senate's debate the police station at Borgo was strafed with machine-gun fire. Meanwhile, the political wing of the separatist movement is threatening to abandon Mr Jospin's plan unless all “political prisoners” are given an amnesty

Mr Jospin says he and Mr Vaillant are conceding nothing to terrorism. It is in accordance with the law that prisoners should be held in places within easy reach of their families. Indeed. But Mr Jospin's point a year ago was that detainees not yet convicted but still being interrogated should be held within easy reach of the investigating judges—who are all in Paris.

So how does Mr Jospin explain the government's apparent change of mind? The answer, with a turn of phrase that leaves his interior minister looking stupid, was to say that until a centre for long-term prisoners has been created (no date for that) “nothing has actually changed.” In other words, the 39 Corsicans at present being questioned for alleged terrorism will remain in custody in and around Paris.

Some six months before the presidential election at which he is expected to confront Jacques Chirac, the conservative incumbent, there is little evidence that the voters care much about Corsica one way or the other. But they do care that their leaders should be in control—which means that Mr Jospin can ill afford to see his plan for Corsica go adrift.

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Spain and Morocco

A spat across the strait

Nov 8th 2001 | MADRID
From The Economist print edition

They have to live side-by-side, but the two countries aren't finding it easy

IT HAD been an uneasy summer, but relations between Spain and Morocco appeared to have improved again. Then, late last month, King Mohammed VI, without consulting his ministers, called his country's ambassador home from Madrid “for consultations”, and called off a summit scheduled for December. The Spaniards were flummoxed. Why, they asked? But the spat bubbles on. Here is why.

• A breakdown in talks between the European Union and Morocco over **EU fishing in Moroccan waters**. Spanish officials were privately content: now Spain could phase out some of its boats with hefty EU compensation. But the prime minister, Jose Maria Aznar, was irked at what he deemed Morocco's unrealistic negotiating position. There would be consequences, he said, acidly noting that Morocco is the leading recipient of Spanish foreign aid. Morocco took that as a threat to cut it off.

• **Illegal immigration**. Spain's foreign minister, Josep Pique, had hinted that Morocco was lax in its policing of the rubber dinghies that pour their human freight across—and quite often into—the narrow waters between the two countries.

• Rising **Spanish media criticism of the slowness of reform** in Morocco after King Mohammed's accession to the throne.

• **Western Sahara**, a former Spanish colony seized by Morocco in 1975. The United Nations thinks the (few) West Saharans should be allowed a referendum, but recently put that idea on ice so that a scheme for autonomy (with a referendum within five years) concocted by a former American secretary of state, James Baker, could be explored. Spain backs a referendum much sooner, Morocco prefers the Baker plan. It may have been this issue that spurred the recall of the ambassador: the king was about to start a two-day visit to the area on November 1st.

• Spain's enclaves of **Ceutaand Melilla**. This issue is usually left to sleep. But Morocco is happy to give it a prod when that is useful at home, especially now that Spain is cajoling Britain into a deal on Gibraltar.

A deeper malaise dates back centuries. Much of Spain was ruled by the Moors until their last kingdom, Granada, fell in 1492. Moroccan art and literature still reveal nostalgia for the lost “Al-Andalus”. And Spaniards, as if to prove wrong the Frenchman who remarked that “Africa begins at the Pyrenees”, can be tactlessly heavy-handed in their dealings with Moroccans.

The relationship is not all sour. Spanish businessmen still look south for opportunities. King Juan Carlos maintains close ties with the Moroccan royal household. Morocco this week was stirring the pot, the Spaniards trying to cool it down: Morocco, after all, is their buffer against Islamic fundamentalism, and they have nothing to gain from trouble. They hope to reschedule a summit for January. But for the relationship to flourish both countries need to set aside the sensitivities that divide them.

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Swedes and sport

Drugs? Us? Never

Nov 8th 2001 | STOCKHOLM
From The Economist print edition

Or so they used to say

Where did those muscles come from?

WHEN some stars of Finland's Nordic-skiing team last year admitted they used drugs, Swedes jeered; not just from traditional sporting rivalry but because they knew that Swedish athletes, unlike lesser breeds, were clean. Well, they used to know. This week Ludmilla Engquist, an Olympic gold-medal hurdler in 1996 and still part of Sweden's potential Olympic bobsleigh team, confessed to taking anabolic steroids.

The Swedes were stunned. They are deadly serious about sport, and Mrs Engquist was vastly popular: not just the only Swedish woman to win an Olympic gold on the track, but heroine of a brave and successful fight against breast cancer two years ago. No longer. Her sponsors say they may sue, and police this week raided her house. She may face a criminal charge, even prison.

Athletics officials were quick with an excuse: Mrs Engquist was a Russian till she married a Swede and was fast-tracked into citizenship just in time for Atlanta. And we all know what goes on in Russia, don't we? Indeed: as a competitor for Russia in the early 1990s, Mrs Engquist was given a ban for four years (later rescinded) for using, yes, anabolic steroids. So true Swedish sport remains essentially drug-free, OK?

No. Another member of the bobsleigh squad, it has now been revealed, has a criminal conviction for drugs. News to us, said the sports chiefs. Maybe, but maybe also they'll now think twice before claiming Swedish sport to be cleaner than the rest.

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Charlemagne

Edward Shevardnadze

Nov 8th 2001
From The Economist print edition

The great survivor of Georgian—and Soviet—politics may be on the skids

Get article background

EVEN experts in Georgian politics are baffled by last month's events. A band of Chechen guerrillas makes a mysterious foray and then disappears. Georgia's security services stage a clumsy raid on the offices of the main independent television channel, prompting public protests. Russia, which has for years tried to bully Georgia, suddenly starts being almost gushingly friendly.There are resignations and sackings galore, and talk of coups and civil war. Is there even an indirect connection with the events of September 11th?

Certainly, the man at the hub of it all in the Caucasus, Edward Shevardnadze, once played a big role on the global stage, as the Soviet Union's foreign minister and Mikhail Gorbachev's right-hand man, helping to wind down 50 years of confrontational Soviet foreign policy. But the cold war's last echoes have helped him. As president of struggling, utterly skint Georgia, he has been at the front line of western efforts to stop Russia regaining influence in its former empire. There was plenty of scope: two parts of the country are run by Russian-backed breakaway regimes. Another bit in the south is a private fief with ties to shady elements in Russia. Even in the rest of Georgia central control is often shaky. Although potentially an important pipeline route for oil flowing from big new fields to the east, it still depends on energy from Russia. Instability, poverty and corruption have scared off business.

So long as Russia kept up the pressure, the West held its nose about corruption at the highest levels in Georgia, and dished out money, know-how and other help. None of its underlying problems was solved, but the country staggered on, with a fairly free press, dodgy elections and a strong pro-western tilt.

Now things are hotting up. The first big puzzle concerns that band of Chechen fighters, who had apparently been sheltering in the Pankisi gorge, a remote and unpoliced border region. They provoked much alarm last month by moving—who knows why?—to Abkhazia, one of Georgia's breakaway bits. Some said they were going to help the Georgians reconquer the region. Others feared they hoped to wreak havoc in another part of Russia. But the fighters melted away as strangely as they had appeared, after some equally mysterious bombing raids by planes widely assumed to be Russian. The main casualties were peace talks between Georgia and Abkhazia, which had been chuntering on quite well. Abkhazia says it wants to join Russia. A related puzzle is that Georgia's Armenian minority, amid signs of Russian spookery, has started getting restive too.

All that could have been part of some Kremlin plot—an attempt, perhaps, to upset Georgia and tilt it back towards Russia. But if that were so the next piece in the puzzle would be harder to fit. Russia's president, Vladimir Putin, who had previously treated Mr Shevardnadze with thinly veiled dislike, came out with strong support for him, including the avowal that Georgia could sort out Abkhazia on its own if it wished. Russia also says it has pulled out most of the troops and all heavy weapons from its remaining military base in Abkhazia, which has in effect propped up the regime there. And influential Georgians, including parliament's reformist speaker, Zurab Zhvania, who has since resigned, were warmly received in Moscow.

That could be a sign that Mr Putin, now keen to be the West's great new friend, has suddenly switched policies, and is trying to tie up the last annoying loose ends of the Soviet empire. If Russia wants to make friends with Georgia, ditching Abkhazia would be a good start. But the facts are a bit more confusing. At the UN, Russia still blocks international mediation efforts. Russia's generals refuse to let outsiders verify their troops' withdrawal. And Mr Shevardnadze himself is not convinced. He complained this week that he had learnt about Russian policies from television rather than through diplomatic

channels.

Just as messy at home

Combined with all that brouhaha, Georgia's own politics are up in the air too. The popular justice minister, Mikheil Saakashvili, resigned in September, saying he could no longer stomach such flagrant corruption. Once a chum of the president, who invited him back to Georgia from his legal practice in America, he then won a parliamentary by-election last month on an anti-corruption ticket. That looked bad for Mr Shevardnadze, who trumpets clean-ups but does nothing to carry them out. Mr Saakashvili cruelly pointed out that the president had twice in a week announced that “the battle against corruption starts today.”

That by-election victory was followed by a heavy-handed raid on the main independent television station by state-security men. Ostensibly for tax reasons, it made most Georgians think that the authorities were out to swat the press. Street protests then rattled the authorities. In parliament, Messrs Saakashvili and Zhvania told the president to sack his top security men, who run their own lucrative web of businesses.

Instead, Mr Shevardnadze sacked his entire government, thus favouring neither the disappointed reformists nor his own embarrassing cronies. Can he pick up the pieces? Optimists hope he will eventually plump for a decisive team that sincerely wants change. Pessimists fear a brewing confrontation between the country's cold, cross, cash-strapped people and the state-backed gangsters who keep them that way.

On past form, there will be a clever fudge that satisfies nobody, but keeps the show on the road. Although visibly exhausted, Mr Shevardnadze, a wily 73, still has reserves of cunning and clout, plus a long memory. Most important, he still has the backing of the United States. President George Bush telephoned him this week to express support. But will that be enough to keep him in power until his term ends in 2005? Many Georgians are losing patience. Plenty of outsiders, too, think that Mr Shevardnadze is looking increasingly out-of-date.

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Marriage and multiculturalism

Connubial wrongs

Nov 8th 2001
From The Economist print edition

Magnum

Inculcating British values into immigrants seems both harder and more urgent since September 11th

LAST July, Narina Anwar and her two sisters were tricked into travelling from their home in Bolton, England, to a village in Pakistan—where, it transpired, Miss Anwar was supposed to marry an illiterate cousin. Fortunately, the sisters managed to flee in disguise, incurring death threats, to the British High Commission in Lahore, which protected and repatriated them.

It ought not to be controversial for governments to confront a practice so egregious as forced marriage. Yet these are sensitive times. Ministers trod delicately when outlining their strategy to combat it last week—insisting, like George Bush and Tony Blair, that they had no quarrel with Islam. But the phenomenon of forced marriage inevitably raises questions about the rights and responsibilities of minorities in the West, the same questions raised more starkly by some domestic responses to the war in Afghanistan.

In the past year, the Foreign Office has helped around 50 actual or potential victims of forced marriage to travel home, mainly from the Indian subcontinent, and has assisted more than 200 such people in all. Voluntary groups say the problem is much bigger. More young women are resisting coercion, because the education that enhances their marriageability also makes them less docile. In response, British police forces are liaising with their counterparts in the regions their local populations come from: West Yorkshire police have friends in Mirpur, Pakistan, while Greater Manchester Police have contacts in Sylhet, in Bangladesh. Consular and immigration officials have been given special training. Foreign brides forced into conjugal misery in Britain will also get help: it will be easier for them to get accommodation, and to stay in the country even if they leave their husbands.

Community leaders condemn forced marriages. Nevertheless, many worry that the issue has been used to stigmatise Muslims. Habib Rahman, of the Joint Council for the Welfare of Immigrants, detects an undertone of cultural supremacism, which, he says, has become more pronounced since September 11th.

Arguably, though, British politicians have exercised too much, rather than too little, sensitivity when addressing nasty traditions. This week, for instance, ministers meticulously distinguished forced marriages from arranged ones, to which many young Asians consent. In reality, the distinction is as fragile as the concepts of duress and consent are slippery—though to say so would have seemed incompatible with respecting cultural diversity.

But not all diversity is good diversity. Liberal societies sometimes have to adjudicate between individual

rights on the one hand, and cultural traditions on the other. David Blunkett, the home secretary, recognised this when he recently wrote that practices violating personal autonomy should be challenged, even if that involved “questioning deeply held beliefs and prejudices”. Other countries have been more assiduous (some would say too assiduous) in doing so: France forbade schoolgirls to wear headscarves.

Arranged marriage is also a cause of the biggest problem with the way Britain has managed diversity. Most immigrant groups become less insular over time, as their children marry locals. That has not happened with Pakistanis and Bangladeshis, partly because wives are often imported. Children whose mothers speak little or no English start their education at a disadvantage. They often, therefore, do badly at school, and consequently suffer high rates of unemployment. These two factors—segregation and unemployment—helped to produce ugly race riots in several northern cities last summer, which were echoed last week when a mob of Asian youths in Bradford stoned a vicar and tried to torch his church.

In response to the summer's unrest, Ann Cryer, MP for Keighley, in Yorkshire, proposed that new immigrants should be obliged to learn English—an idea that was immediately caricatured as covert racism. But the spectacle of a few young British Muslims heading for Afghanistan to fight for the Taliban, and rather more of them expressing their support, has made the idea of inculcating a sense of citizenship seem more urgent. Mr Blunkett is now thinking about introducing induction and language classes for new immigrants. Will Kymlicka, an expert on multiculturalism at Queen's University in Ontario, Canada, argues that these can foster an association with national values and institutions which some in Britain evidently lack.

The government wants to move “beyond multiculturalism” to a debate about core British values. This is both the worst and the best time to do so. But if it doesn't, the marriage of cultures in modern Britain will become even more fractious.

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Airlines

Ready for take-off

Nov 8th 2001
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British Airways is heading for record losses, but Britain's airline industry looks well placed to benefit from a bounce-back in the travel business

AP

Up and away

AT FIRST sight, things look bad for Britain's airlines. The recession in the aviation industry, which started this summer, has hit BA particularly hard. It relies for nearly all its profits on business passengers crossing the Atlantic and flying other long-haul routes. Figures released this week showed that in October BA's overall traffic fell by 25%, while its premium-fare business went down by 36%. The outlook for this month is no better. Its financial results for the three months up to the end of September were equally bleak: profits in what is normally the best period of the airline's financial year fell from £200m ($296m) last year to £5m. For the full year ending next March, BA's own stockbroker expects a horrendous £775m loss, though other observers think it could be much less.

BA's smaller rival, Virgin Atlantic, is also dependent on transatlantic routes, and is also struggling. It may soon need more cash from Sir Richard Branson's deep back pocket.

In these bad times, accounting profits and losses matter less than whether there is enough cash to keep a company functioning. BA admits it is dripping £2m a day as costs exceed revenues. But the airline has £3.4 billion available in cash, saleable assets and credit lines, which should carry it safely through a prolonged recession. Most analysts expect real signs of recovery in traffic for mainstream carriers by the middle of next year, with a bounce back to previous peaks during 2003.

Aside from its stack of cash, BA is also well placed to forge an alliance with American Airlines: with the industry in crisis, regulators will be less severe than before about the competition objections. And as weaker airlines, such as Swissair and Sabena, go under, BA is likely to emerge as one of the three leading European carriers alongside Air France and Lufthansa. BA confirmed this week that it was talking to the Netherlands'KLM about collaboration on short-haul routes in Europe.

This week the British flag-carrier got a morale boost when it re-started Concorde services to America, with a chartered flight to take Tony Blair to Washington to meet George Bush and still get back to hold a war cabinet meeting the next day, and an invitation-only VIP flight to New York on the morning of November 7th. Both provided a public-relations boost to BA, which plans soon to ask the government for some cash compensation for the shut-down in America in September.

BA is looking forward to further good news when the government announces its decision on a fifth terminal for Heathrow. Observers reckon that it will get the go-ahead, with fewer conditions than might have been expected in better times.

Britain's other aviation ace is its low-fare sector, which flourished because the market was deregulated earlier than that in other European countries. Ryanair may be based in Dublin, but much of its business runs out of London's Stansted airport. This week it reported profits up 39%, and booming revenues, thanks to aggressive price offers which attract publicity and passengers. Last week easyJet, which is based at Luton airport, reported a similar boom, thus giving the lie to pessimists who think that September's terrorist attacks have made everyone afraid of flying.

Both airlines are also expanding vigorously from new bases in mainland Europe. Britain's other big carrier

(bmi, better known under its old name of British Midland) is a private company which keeps its results to itself; but it is in effect a subsidiary of Lufthansa, secure in the mighty Star Alliance, and robust enough to weather any downturn. So as Europe's little flag-carriers fall, the prospects for British airlines get better and better.

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The press and the law

Judge in sex scandal

Nov 8th 2001
From The Economist print edition

A great British industry is under threat

TO THE consternation of the tabloids, whose business depends on a steady supply of exposés from the bedroom of anybody loosely described as a celebrity, a judge's ruling was published on November 2nd stating that the existence and details of a sexual relationship were “confidential”, regardless of whether the people involved treat them as such. Mr Justice Jack granted an injunction against an unidentified newspaper to prevent it publishing “salacious descriptions” of the affairs of a married professional footballer with two women, one of them a lap dancer. By doing so he has, in effect, robbed the British taboids of their staple diet.

The papers themselves, bought by a total of 10m Britons every day, had a mixed reaction. The *Daily Mail*, the bible of middle England, devoted two pages to the matter, in which Stephen Glover, its political columnist, took the public-interest line. He argued that “sexual high jinks among public figures can be the first stage towards wider misdemeanours” (citing Charles II, John F. Kennedy and Bill Clinton) and complained of the judge imposing his own “strange puritan universe” on an undeserving nation.

Rupert Murdoch's *News of the World* did not dignify the ruling with comment. Instead, it published a two-page spread entitled “Osama had booze-filled sex romps with hookers,” based on a “secret FBI dossier” which explained that Mr bin Laden's hatred of America originated from an encounter with a girl from Chicago who laughed at his small penis. Mr bin Laden is not expected to sue.

Osama had booze-filled sex romps with hookers

The injunction could still be overturned on appeal, and the ruling on which it is based might not apply if there were a public interest. Yet it comes at an uncertain time for the tabloid press. In the days after the terrorist attacks of September 11th, there was much soul-searching about the introspective nature of the celebrity culture on which these newspapers subsist, and grave pronouncements from media commentators of the beginning of a more serious news agenda.

The *Mirror*, to be fair, has put the anti-terrorist campaign prominently on its front page more often than not ever since. The *Sun*, by contrast, kept it up for under a fortnight: it came full circle from “Becks in fury over Posh boob taunt” on the day of the attacks to “Elton John: I fancy girls” 13 days later. As Rupert Youngman at *Anorak*, an online magazine that tracks the tabloids, points out, the naked page-three girl, “the barometer of business as usual”, was back by September 20th. Should this ruling hold, the implications are grim for those in the business who have picked up again where they left off.

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Remembrance Day

Journey's end

Nov 8th 2001 | YPRES
From The Economist print edition

The first world war is a flourishing industry, but the deaths of the last participants may change that

MEMORY tends to fade as time passes; yet these days Remembrance Sunday is observed more strictly than it was two or three decades ago. As the last post sounds, silence falls in many offices and homes. That is largely due to the tremendous surge in interest in the first world war over the past 20 years.

Since the 1970s, the first world war has turned into an industry, with bestselling books on the subject and a crowded market for battlefield tours. Holts, the first company dedicated to taking parties around the killing fields of Flanders, started up in 1976. It now takes 2,500 people a year. There are six other companies in the business, as well as specialists catering to the growing number of school groups going over as well. Interest was also fuelled by the success of Pat Barker's “Regeneration” trilogy of books about the war, published in the 1990s, which sold over 800,000 copies in Britain alone, and by Sebastian Faulks's “Birdsong”.

The first world war has gripped the imagination partly because of the numbers involved. The scale of the human loss never fails to shock, especially when it is chiselled in stone. The monumental Menen Gate at Ypres proved to be too small to record all the Commonwealth dead missing in action in just the few square kilometres of the Ypres battlefield. There are 54,900 of Siegfried Sassoon's “intolerably nameless names” recorded on the Gate, but another 34,888 had to be inscribed in another nearby cemetery.

But the Great War's power over later generations lies principally in its senselessness. It was a war in which all on both sides seemed to be victims of evil forces greater than themselves; of technology, imperialism or the public-school system. The latest trend is to remember those who rebelled against these forces. After all, don't deserters deserve our sympathy as much as the veterans? So there are now several guidebooks to the “execution sites” of Flanders. Thus, more than any other conflict, the war has come to reflect the concerns of contemporary politics.

Much of the recent fascination with it stems from the activity of the veterans themselves. Their testimony on Remembrance Day, and their mere presence at the ceremonies, is now taken for granted. But it was not always so. Though some memoirs and novels told of the day-to-day experience of the war, for years after 1918 this was almost a taboo subject. Services, especially at the British cemeteries in France and Belgium, were attended mainly by the relatives of the fallen. Veterans found that the gulf of understanding between them and the civilian population (often including their own families) was too wide, especially when it came to the horrors of trench warfare. But in the 1970s and 1980s many first-hand descriptions came out, possibly because veterans found it easier to unburden themselves to their grandchildren than to their own children—a process that forms part of Mr Faulks's subject-matter.

Now the last few veterans are dying off, severing the final human links with the misnamed “war to end all wars”. Unlike other countries, Britain does not keep an official register of veterans, but it is estimated that there are only 120 men left who fought in the war. Already, there are no survivors of the “Old Contemptibles”, those who served in the original British Expeditionary Force. There are only 250 French veterans left, and one Belgian. Germany does not keep any records.

Many people concerned with the first world war industry think that, with the end of the veterans themselves, interest in the war could prove to have peaked. In Ypres itself, a shiny new museum was opened in 1998 to cultivate the interest of schoolchildren in the war. Young boys saunter through it with their Walkmans on, and the simulated whine of shellfire has to compete with the latest music for attention. Without the veterans telling old and new stories about their tragedies, the first world war may become just another interactive experience.

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Planning

Less loathsome, perhaps

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From The Economist print edition

The government is likely to change planning laws to help business

“FEW countries have ended up with a planning system as loathsome as ours,” says Tony Travers, a planning expert at the London School of Economics. “It manages both to hold projects up for decades and to give people the feeling that they don't have any say at all.” Hence the announcement by Lord Falconer, minister for planning, that the government would soon publish a green paper proposing a “wholesale change” in the planning law.

To be fair on Britain's planning laws, they operate in tough conditions. Planning is about balancing the need for a decent environment with business's need to grow, and the south-east of England is one of the richest and most densely-populated areas of the world. People want, simultaneously, to be able to leap on an airliner to anywhere in the world at any time they choose, and to sleep undisturbed by airliners. They want new jobs, cheap houses and beautiful countryside. But, even given its difficulties, the law does a bad job. Planning inquiries often drag on for longer than the life of a government. The inquiry into Heathrow's proposed fifth terminal has gone on for eight years.

Businessmen reckon that the cumbersome nature of the process puts them at a disadvantage compared with foreign competitors. That's why Lord Falconer made his announcement at the Confederation of British Industry's annual conference. A report by McKinsey published in 1998, which looked at Britain's poor productivity record compared with that of other countries, named planning as one of the principal culprits. Businessmen complain that the economic conditions which led them to apply for planning permission in the first place have sometimes changed by the time permission comes through.

The government has not yet revealed the details of its proposals. It is due to do so before the end of the year. But Lord Falconer indicated that the balance is likely to shift in favour of growth. He suggested that Parliament might make a decision in principle on future big projects, leaving the details to local authorities. That would avoid decade-long inquiries. He says that the system needs to be speeded up at local-government level as well. Environmental groups are worried.

There is, however, no mention of the change that would make most difference. At present, taxes on business go to central government, not to local government. Councils, which make most planning decisions, therefore have little interest in seeing business grow. Give them the cash, and the decisions would speed through. But that, of course, would mean taking the cash away from the Treasury, so it is not likely to happen.

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Manchester

Till road

Nov 8th 2001 | MANCHESTER
From The Economist print edition

Businesses want to expand around the M60, but they're not welcome

BUSINESS loves big new roads. So the completion of the M60 ring road around Manchester a year ago was hailed as good news for business and for the depressed towns on the east side of the city where the missing link was built. But the business that is booming because of the M60 is shopping, so much so that the government is getting alarmed.

Its worries are understandable. The link was designed in part to ease traffic congestion around Manchester. It has done that—at least for the time being. Some 75,000 vehicles are using the new bit of road each day, about 10,000 of them to avoid bottlenecks in the M60's north-west corner between its junctions with the M62 and the M66, used by up to 180,000 cars and lorries a day.

More shopping would mean more traffic. The Trafford Centre, one of Britain's biggest shopping centres, which had 24m visitors in 2000, noticed that the number of shoppers from towns on Manchester's east side rose by about a third after the M60 was completed.

But Mancunians, it seems, want to shop. Spending in central Manchester shops rose by 11% in September compared with a year before, well above the national average increase of 5.7%. Tom Russell, Manchester City Council's deputy chief executive, says that retailers have put in applications to build on every available site in east Manchester. The council is trying to resist them. John Mitchell, assistant director of economic development at Oldham council, says, “Retailers would take the space we have many times over.”

The planners would prefer that the land be used by companies which bring in more highly-paid jobs. Average earnings in Tameside, which covers the towns of Denton and Ashton-under-Lyme, are about 15% below the British average wage, and the council is looking for something that offers workers better prospects than life behind a till. Kieran Quinn, Tameside's councillor responsible for economic development, hopes that rising office rents in Manchester and the easier access to the airport that the M60 offers will encourage a better sort of company to look eastwards.

But the right sort of company is not rushing in, so the stores seem to be winning the battle. A development firm has got permission to spend £100m on building a shopping centre in Denton. The first occupants of Ashton Moss, Tameside's biggest development site, will be Sainsbury, the grocery chain, and a cinema-cum-leisure development.

The test of whether this type of development manages to spread will come in Stockport. Ikea, a home-furnishings chain, wants to spend £30m on building its biggest store yet in Britain right next to the M60. Stockport Council wants the 600 jobs that the store and an associated call-centre will bring, and reckons that Ikea will bring millions of people into the town. The government is more worried about congestion (Ikea plans a 1,460-space car park) and has ordered an inquiry.

But Stockport Council might have a point. When the economy is weak, it may not be sensible to sniff at those who want to grow.

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Northern Ireland

Trimble reinstated, Paisley rampant

Nov 8th 2001 | BELFAST
From The Economist print edition

To keep the Good Friday Agreement afloat, politicians have undermined it

THE life of the Northern Ireland Assembly has not been a glorious one so far; but this week, in which David Trimble was reinstated as first minister only by stitching up the opposition, and his subsequent press conference was disrupted by hooliganism, was one of the worst. But the nastiness was not simply the product of the usual hatreds. It was the result of the tension between the need to keep the Good Friday Agreement alive, and the principle protecting the rights of minorities which is enshrined in the agreement.

Mr Trimble walked out of his job in July because the IRA showed no sign of disarming. When the IRA said two weeks ago that it would put some of its weapons beyond use, he wanted his job back. Most of the Assembly's members—unionists and nationalists who support the Good Friday Agreement—wanted him back in it. But Ian Paisley's Democratic Unionist Party, plus a couple of defectors from Mr Trimble's own Ulster Unionists, did not.

In most parliaments, that would not matter. After all, Mr Trimble got 70.6% of the votes. But things are not so simple in Northern Ireland.

Under the province's power-sharing agreement, the 108 Assembly members are required to designate themselves as unionist, nationalist or “other”. The Alliance Party and the Women's Coalition call themselves “other” rather than be counted in what they term “tribal camps”.

To ensure that all important decisions are agreed by both camps, they must have the support of both unionists and nationalists. That means, depending on the importance of the vote, either a majority of each group or at least 40% of the votes in each group. The vote for first minister and for his deputy needed a straight majority among both unionists and nationalists. Because two Ulster Unionist members voted against their leader, Mr Trimble lacked a majority of unionists, and so lost the vote.

Over several days of heated debate, the Alliance Party's five voting members were allowed to redesignate themselves as “unionists”, which they did, on condition that the voting arrangements be rewritten. Thus Mr Trimble's job was saved. But these shenanigans have only strengthened claims among some unionists that the power-sharing agreement will do little to protect Protestants if they slip into a minority in the province.

For all their insistence that democracy has been corrupted, Mr Paisley's two ministers are now back in the reconstituted executive alongside the two representatives of Sinn Fein, the IRA's political wing, and the moderate nationalist SDLP. But if the dissident Ulster Unionist members stick with the opponents of the agreement, Mr Trimble's future remains precarious. If he goes, there will be new Assembly elections. The DUP and Sinn Fein are expected to do well if an election is held soon. So Mr Paisley could become first minister, with Sinn Fein's Gerry Adams as his deputy—or vice versa. Neither set-up would work.

The best hope is for a period of calm during which the power-sharing executive looks efficient if not united. If the IRA gets on with decommissioning, it would restore to Mr Trimble some of the credibility that he has lost over the past week. And it could just be that the frightening spectacle of a rampant Mr Paisley swings some support behind his opponents, and thus behind the Good Friday Agreement.

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Scotland

Henry's gone

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The resignation of the first minister has damaged Scotland's parliament

Reuters

History

AFTER three weeks of being quizzed by the media about a seemingly minor matter to do with expenses, Henry McLeish announced on November 8th that he was resigning as Scotland's first minister. The news was a shock. Mr McLeish had spent the previous three days tidying up the problem and seemed to have put it to rest, bar some further shouting from the opposition. But he evidently decided that resignation was the only way of ending the barrage of questions.

Mr McLeish's problems relate to his time as the MP for central Fife in 1987-2001. Like most MPs, he had a constituency office. The taxpayer paid the rent. But Mr McLeish sublet part of the office to firms which paid £36,122 over the period. His office allowance should have been reduced by the same amount. It wasn't. The money, says Mr McLeish, went on office costs. He has already repaid £9,000, and said on November 6th that he will repay the rest. After he had explained the background (parliamentary rules about office sub-letting income were unclear before 1997), the Labour and Liberal Democrat parties in the coalition which he heads were prepared to back him. Even his critics accepted that he had not personally benefited from what he described as a “muddle, not a fiddle”.

But, by taking so long to give a full account of himself, Mr McLeish had undermined his leadership. He looked like a man who was not fully in charge of his administration, never mind his own finances. This exasperated even his supporters in Labour's national hierarchy—chief among them being Gordon Brown, the chancellor of the exchequer and also a Fife MP. With his position weakened, Mr McLeish evidently decided that quitting was the only way of emerging from this dismal affair with some honour.

His departure poses a problem for the Scottish Labour Party. The law says that a new first minister must be elected in 28 days, otherwise there has to be a Scottish general election. The last time this happened, when Donald Dewar died in 2000, Labour hastily assembled an electoral college of its members of the Scottish Parliament and the party's executive committee. The same procedure will follow now, as will criticism from the opposition that the appointment is an undemocratic fix.

The likely candidates include Jack McConnell, the education minister, whom Mr McLeish narrowly defeated when he became first minister. Others who may stand are Angus MacKay, the finance minister and a protégé of Mr McLeish, and Wendy Alexander, the enterprise and lifelong learning minister, who is a favourite of Gordon Brown's.

But whoever wins will inherit a weakened administration. The sight of Mr McLeish squirming over the tawdry details of his expenses claims has both reduced the status of the Scottish Parliament in the eyes of many Scots to that of a corrupt local council and also lowered Edinburgh's standing at Westminster, where a battle looms over the balance of power between the two Parliaments.

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Bagehot

This old house

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Labour's plans for cleaning up the House of Lords are still too timid

WALTER BAGEHOT, the eminent Victorian after whom this column is named, said that the best cure for admiring the House of Lords was to watch it in action. And yet it was possible until 1999, when Tony Blair started to reform it, to watch the Lords in action and admire it for working better than any chamber of nearly 1,300 members, more than 750 of them members by right of birth, really deserved to. It did so because only 400 of the peers tended to show up, and by some miracle of British improvisation made a decent job of improving the legislation sent to them from the Commons. Indeed, the upper house fancied itself more dignified, more expert and more independent than the lower one, which due to the inconvenience of having to be elected contains a surfeit of boring political hacks toeing the party line. The Lords is—or was—a great, quaint, British institution, with oodles of mystique, impenetrable conventions, and, as it happens, a built-in Conservative majority.

Mr Blair is nonetheless right to be sweeping this old house away. The hereditary principle has no place in a self-respecting Parliament. In 1997, Labour was elected on a manifesto that promised to make the Lords "more democratic and representative" in two stages, the first of which was to evict the hereditary peers. In 1999, Mr Blair removed all but 92 of them, leaving a chamber whose other members were all the appointees of his own government or its predecessors. Since patronage is no better than inheritance as the organising principle of a parliament, it would have been wrong, though it may have been tempting, to let this transitional chamber become permanent. For that reason alone, the government deserves a cheer for publishing a white paper this week setting out its second stage of reforms. The pity is that the second stage is so timid.

The government has broadly followed the conservative recommendation of the royal commission Mr Blair set up in 1999 under a former Conservative cabinet minister, Lord Wakeham. The Lords envisaged in the white paper will eventually have 600 members, of whom only 120 are to be elected. Another 120 are to be "independent" of party politics, chosen on their personal merits by an independent cross-party appointments commission. There will be 16 bishops and at least a dozen law lords. The rest—300-plus—are to be nominated by political parties, though it will be up to the appointments commission to make sure that they are "fit and proper". The commission will also sort out how many new members each party is entitled to, so that the proportion of "political" members reflects the share of the vote won by the respective parties in the preceding general election. The surviving 92 hereditaries will be turfed out, but existing life peers will indeed keep their seats for life.

These are not worthless reforms. The new house is designed so that no party will have a majority, which is better than one party inheriting a permanent majority. Members will no longer receive a peerage, which should help to discourage applications from snobs. Though the prime minister will still appoint a handful of ministers to the Lords, he will pass on most of his patronage powers to the new appointments commission. The 120 elected members, selected by proportional representation from multi-member constituencies, will give the new house the regional representation that the present one lacks. In many ways, the new house might be superior to the one it replaces.

The lion that squeaked

Still, the white paper is a missed opportunity. There is to be no separation of powers, no taking the law lords out of the legislature and creating a supreme court. And only a fifth of the new chamber will be elected. The government says this is to prevent it becoming a replica of the Commons. But that is not the real fear. There are many ways to devise an elected upper house that would not reproduce the make-up of the lower one. The lower one could be elected by proportional representation and the upper by a

majoritarian system, or—as, roughly, in Australia—vice versa. The government's real fear is not that an elected Lords would mirror the Commons, but that it would compete with it.

To his credit, Robin Cook, the leader of the Commons, makes no bones about this. Introducing the white paper, he said that it had been crafted expressly to preserve the existing balance of power. The Commons is to remain the pre-eminent chamber, with the sole right to pass legislation on taxation and the final right to decide on all other legislation. The Lords will remain a chamber of revision, scrutiny and deliberation, with the power to delay but not to block the government's legislation. This system has the virtue of clarity, and clarity has the virtue of helping citizens to hold politicians to account. There is nothing self-evidently wrong in choosing to keep the balance intact while improving, at the margin, the ability of the upper house to do its existing job.

Nothing wrong, that is, unless Mr Blair and Mr Cook pretend that the balance of power between the Lords and the Commons is the one that really matters in the constitution. It is not. The balance that matters is not between Parliament's two houses but between Parliament and the executive. The eternal puzzle of the British system, which the late Lord Hailsham called an “elective dictatorship”, is how Parliament can hold the government to account when the members of the ruling party in the House of Commons depend for their personal advancement on the favour of the very prime minister whose actions they are supposed to scrutinise. This problem waxes and wanes, but has become stark under a prime minister who combines a presidential style with his second overwhelming Commons majority.

One way to solve this problem would have been to enhance the powers of the upper house. Having now rejected this possibility, the government ought to do something to enhance the independence of the lower one. It probably won't.

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Getting better all the time

Nov 8th 2001
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Developing countries are widely thought to be losing out from ever-faster technological change. Not so, argues Robert Guest: science is rapidly improving the lives of poor as well as rich people

AN ANGOLAN refugee camp is not a happy place. Tired and hungry families huddle for shade under black plastic sheets. Amputees limp by on makeshift wooden crutches. The smell of human waste hangs thickly in the hot, dry air.

Angola is arguably the most wretched place on earth. Three decades of civil war show little sign of easing. A pitiless rebel army makes the countryside too dangerous to farm, so peasants flee to the cities in search of food and safety. Every rubbish skip has ragged children in it, foraging for lunch. Twentieth-century technology has caused terrible harm. Armour-piercing bullets keep evil men in power. Plastic explosives shred limbs.

Yet despite war and poverty, Angolans now live almost twice as long as their great-grandparents. By western standards, a life expectancy of 45 sounds pitifully short. But a century ago, Angolans, like most people throughout human history, survived for an average of only 25 years.

The reason is 20th-century medicine. Even the sad souls in Luanda's refugee camps have access to drugs. Antibiotics clear up infections that would previously have been fatal. Vaccines prevent countless children from dying before they can walk. In Angola as a whole, two-thirds of one-year-olds are immunised against tuberculosis. This is one of the lowest rates on earth, but it is a vast improvement on nobody 100 years ago.

The conventional wisdom is that as rich countries innovate with ever-increasing speed, the 5 billion people who live in developing countries are left behind. This survey is more optimistic. Of course technology makes the rich richer. But it also makes the poor richer, not to mention healthier, better-fed, longer-lived and supplied with more entertainment.

Consider the most basic indicator of well-being: staying alive. If people are living longer even in Angola, it should come as no surprise that the gains are even greater elsewhere. Angus Maddison, an economic historian, estimates that life expectancy in 1900 in what we now call the developing world—roughly speaking, everywhere apart from Western Europe, North America, Australasia and Japan—was 26. In the West, it was 46, about the same as in Angola today. Westerners now live 70% longer than they did a century ago, to an average of 78. People from developing countries can now expect to live two-and-a-half times longer than in 1900, to 64. These figures are astonishing. In the millennium before 1900, lifespans in Asia, Africa and Latin America barely budged.

People from developing countries can now expect to live two-and-a-half times longer than in 1900

People are living longer for many reasons: better food, cleaner water, more effective medicines. How did they get these things? It helps that the poor are getting richer: average annual incomes in developing countries doubled between 1975 and 1998, from $1,300 to $2,500 (in 1985 dollars at purchasing-power parity). It does not hurt, either, that their rulers are getting less despotic: since the collapse of the Soviet Union, 100 developing countries have ended military or one-party rule. (Angola was an exception to both these trends.)

The strongest force propelling human progress, however, has been the swift advance and wide diffusion of technology. Bread has been around for thousands of years, but the hybrid wheat seeds, chemical pesticides and fertilisers that have allowed food production to outstrip population growth are recent inventions. Water is older than mankind, but no one thought to add chlorine to it until the 20th century. And the medical advances of the past 100 years far surpass those of the previous million.

Countries vary hugely in their ability to produce new technology. According to a recent report by the United Nations Development Programme (UNDP), the 29 industrial nations that make up the Organisation for Economic Co-operation and Development (OECD), with 19% of the world's population, accounted for 91% of the patents issued in 1998. That year, those countries spent $520 billion on research and development (R&D)—more than the combined economic output of the world's 30 poorest countries.

Many people worry that the “digital divide” is unbridgeable. Rich countries grow richer from their high-tech industries, which allows them to invest in the next generation of high-tech products. High salaries in Silicon Valley suck the best brains out of poor countries. The West gets wired, enabling its researchers and businessmen to swap ideas and sign deals at Internet speed. Poor countries, excluded from these opportunities, fall ever further behind.

Sunnier folk argue that for rich countries to be pushing out new technologies at an unprecedented rate must be a good thing. Knowledge does not wear out, and American and Japanese inventions eventually get cheap enough for Africans to buy them. It still takes too long, but it is happening faster now than ever before.

The first three articles in this survey look at three fields where technology holds particular promise for the poor. The first is agriculture: the controversial science of genetic modification could feed the world, if only environmentalists would let it. The second is medicine: startling advances continue, but the fight against AIDS and tropical diseases will require more public money. The third is information and communication technology (ICT). Despite the pessimists' dire predictions, ICT is spreading more rapidly than anyone imagined, and is spawning and spreading other technologies, too. Most of the rest of the survey deals with how developing countries are trying to catch up and start innovating for themselves.

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Feeding the five billion

Nov 8th 2001
From The Economist print edition

New agricultural techniques can keep hunger at bay

SHRIMPS are messy creatures. When scrubbed, shelled and served with lime leaves and lemon grass in a hot Thai *tom yam koong* soup, they taste wonderful. But while alive, they excrete large amounts of toxic sludge.

Well-fed Luddites on a field trip

On Thai shrimp farms, the traditional way of dealing with this sludge is to toss it in the nearest river. Land used for shrimp farming soon becomes polluted and unusable, so shrimp farmers keep cutting down fresh forest to build new shrimp pools. Since farmed shrimps live in their own waste, they often fall sick. So farmers stuff them with antibiotics, which could end up in your *tom yam koong*.

Fortunately, there is a technological fix. Bio Solutions, a Thai firm, has developed a pill containing bacteria that eat shrimp excrement. Throw the pill in the pool, and the bacteria multiply until they run out of food. Then they obligingly starve to death, in a tidy, biodegradable way. “If Asia is going to feed itself,” says Charles Liu, the president of Bio Solutions, “agricultural biotechnology has to be part of the answer.” That is what you would expect him to say—but he has a point.

Predictions that people would multiply beyond their capacity to feed themselves, like those Thai bacteria, have repeatedly been proved wrong. In 1798, Thomas Malthus foretold famine just as farm yields were taking off. To his credit, he later admitted that he was wrong. Not so Paul Ehrlich, an American biologist who wrote in 1969: “The battle to feed humanity is over. In the 1970s hundreds of millions of people will starve to death.” They didn't.

The world's population grew much as expected, but food output more than kept pace. During the 1960s and 70s, a “green revolution” swept the developing world. Millions of farmers started using higher-yielding hybrid seeds, chemical fertilisers, pesticides and weed-killers. The results were remarkable. For example, Mr Ehrlich had predicted that by the mid-1970s, India would be so obviously beyond hope that America would stop sending food aid. Yet by 1990, India was exporting surplus grain. Chinese rice farmers, using similar techniques, raised production by two-thirds between 1970 and 1995. By one estimate, the green revolution saved a billion people from starvation.

There were some side-effects. Governments subsidised the new chemicals, which encouraged their over-use. This damaged the environment in many parts of the developing world. But the main worry about the green revolution is that it has run out of steam. There are still areas—mainly in Africa—where its techniques have yet to be tried (see table 1). But in most of the developing world, the gains in productivity from it are tailing off.

Globally, 800m people are still malnourished. Heavily subsidised

farmers in rich countries produce enough surplus food to feed the hungry, but not at a price the hungry can afford. Even if the rich world's surplus were simply given to the poor, this would not solve the problem. Most poor people earn their living from agriculture, so a deluge of free food would destroy their livelihoods. The only answer to world hunger is to improve the productivity of farmers in poor countries.

This will be difficult. The developing world's population is growing fast, but the amount of land available for cultivation is not. To feed the 2 billion new mouths expected by 2025, new ways must be found to squeeze more calories out of each hectare. But then more people means not just more stomachs to fill, but also more brains to figure out how to fill them.

There are plenty of good ideas available. The most powerful is biotechnology, and especially genetic modification (GM). It is a young science: biologists first found ways of manipulating recombinant DNA in the early 1970s. The first commercially available genetically modified organism (GMO) appeared a mere five years ago. Supporters of GM expect it to end world hunger. Opponents fear it may poison us all. It is worth stepping back for a moment to consider the evidence.

New seeds 1

% of permanently cultivated land sown with modern crop varieties

Crop	1970	1980	1990	1998
Latin America				
Wheat	11	46	83	90
Rice	2	22	52	65
Maize	10	20	30	46
Cassava	-	1	2	7
Asia				
Wheat	19	49	74	86
Rice	10	35	55	65
Maize	10	25	45	70
Sorghum	4	20	54	70
Millet	5	30	50	78
Cassava	-	-	2	12
Sub-Saharan Africa				
Wheat	5	22	32	52
Rice	-	2	15	40
Maize	1	4	15	17
Sorghum	-	8	15	26
Millet	-	-	5	14
Cassava	-	-	2	18
Middle East				
Wheat	5	16	38	66

Source: UNDP

For and against GMOs

Farmers have been manipulating genomes since long before they knew about genes. For thousands of years, they sought to transfer desirable traits from one plant species to another by cross-breeding: this was how wild grasses were turned into wheat. They also selectively bred animals to make them fatter and tastier: this was how wild boars became pigs.

GM aims to achieve similar results, but faster. It typically takes 8-12 years to produce a better plant by cross-breeding. But if scientists can isolate a gene in one species that is associated with, say, the ability to grow in salty soil, they can sometimes transfer it directly into the genetic code of another species, without spending years crossing successive generations.

GM is more precise than cross-breeding, too. As any parent knows, sexual reproduction is unpredictable. The union of a brilliant woman and an athletic man does not always produce a brilliant and athletic child. In plants, as in people, some traits are inherited, others are not. At least in theory, GM solves this problem by transferring only the gene associated with the trait that the farmer wants.

The final advantage of GM is that it allows the transfer of traits between unrelated species. You cannot cross-breed cacti with corn, but you can take a cactus gene that promotes drought resistance and put it in a corn plant.

So far, scientists have produced GM crops that are more resistant to viruses and insects, and more tolerant of herbicides. In the future, GM could fill the world's larders with high-protein cereals, vegetables with extra vitamins, and all manner of cheaper, tastier and more nutritious foods than we currently enjoy. Researchers at Cornell University in America have even created bananas that contain a vaccine for hepatitis B. A single banana chip inoculates a child for one-fifteenth of the price of an injection, and with fewer tears.

Against these actual and potential benefits must be set the potential dangers. Shifting genes between different species could create health risks. For example, soyabeans given brazil nut genes have been found to express brazil nut proteins of the sort that might trigger allergic reactions. Soyabeans are used in thousands of food products, so if the problem had not been spotted this could have made life hazardous for people with nut allergies.

GM crops may also cause environmental problems. Their pollen might blow into fields of ordinary crops and fertilise them. There is no evidence that this has happened so far, but it is possible, with unknown effects. Also, crops genetically modified to repel pests might spur the evolution of super-pests or poison other species. Laboratory tests have shown that butterfly larvae are harmed when fed the pollen of plants genetically modified to express a toxin called Bacillus thuringiensis (Bt), which protects corn from corn borers and cotton from boll worms.

All these risks are rather speculative. As with any new technology, it is impossible ever to prove conclusively that GM foods are safe. It is essential to test GM products carefully before releasing them, and to keep monitoring them afterwards. But so far, there is no evidence that GM crops hurt either humans or the environment. Americans have been munching modified corn and soyabeans for six years without discernible harm. And so far it looks as though GM crops actually help protect the environment, by reducing the need for chemical pesticides.

Last year, about 44m hectares of transgenic crops were planted, more than 20 times the area in 1996. Most of these fields, however, were in North America. Developing countries have yet to see much benefit from GM technology. But that could change. Among poor countries, the most enthusiastic adopter of GM technology has been China, where the government frets about food security. In 1997-99, China gave 26 commercial approvals for GM crops, including transgenic peppers, tomatoes, rice and cotton. The most commercially successful of these has been Bt cotton.

Cotton-chomping boll worms have grown resistant to pesticides. In 1992, these worms destroyed the entire cotton crop in some parts of China, ruining large numbers of farmers and bankrupting textile factories. So when Monsanto, a big American biotech firm, started selling boll-worm-resistant Bt cotton seeds, the Chinese government snapped them up. Bt cotton now covers half a million hectares of Chinese soil. Production costs have fallen by 14%, despite the hefty price that Monsanto charges for its seeds. Chinese scientists are now working on their own GMOs, and have already produced at least four new versions of Bt cotton.

The Chinese example is hopeful, but not unambiguously so. One reason that China's government was able to embrace GM technology is that the country is a dictatorship. Dissident voices are silenced or ignored. A few democracies, such as America, Canada and Argentina, have taken to GM food. But in Europe, although regulators say that GM products are safe, an energetic campaign by non-governmental organisations (NGOs) has convinced consumers that they are not, and dissuaded supermarkets from stocking them. Through the Internet, the campaign has spread to the developing world.

India, like China, has lots of poor rural folk who must somehow be fed. Anything that raises rural incomes is likely to help. Indian field trials found that Bt cotton produced 40% more fibre than ordinary cotton, with five fewer chemical sprays for each crop. For a typical small farmer with five hectares, this would save $50 per season, a huge sum by local standards. The farmer would also inhale less pesticide. Despite these findings, the Indian government refuses to permit the commercial planting of Bt cotton, largely because of pressure from NGOs. Protesters have invaded field trials and burned GM crops. Some even blocked the delivery of American food aid to cyclone victims, arguing that it probably contained GM products.

Some poor countries hesitate to plant GMOs for fear of upsetting Europeans. NGOs claim that GM crops may “contaminate” neighbouring fields with their pollen. It would be a short step to call for a boycott of all the food exports, modified and unmodified, of countries where GMOs are widely grown. Even for developing countries that allow GM crops to be planted only in isolated plots for research purposes, the risk of a boycott remains. The peasants who live near research centres often notice how good the new crops are and steal the seeds.

Unlike the techniques of the green revolution, GM technology was largely developed by private companies. In the eyes of many, this made it suspect, but such suspicion is largely misplaced. The profit motive gives companies a strong incentive not to poison their customers. But it gives them no incentive to cater for people who cannot afford their products. Better versions of poor people's staples, such as millet, sorghum and cassava, will probably appear only if governments pay for some of the research, but the current hysteria about GMOs makes this politically difficult. When the UNDP recently suggested that GM technology could help the poor, it was met with howls of outrage.

The many ways of fighting hunger

GM is not the only weapon in the war on hunger. Democracy is important too: famines usually occur only in dictatorships. And other technologies too can produce impressive results: using less controversial biotechnology, the UNDP and the Japanese government recently produced a high-yielding hybrid rice that grows faster and contains more protein than ordinary varieties. But battles are easier to win if you have many weapons at your disposal. To remove the most powerful one from the arsenal seems unwise.

For the poor, GM appeared at an awkward time. After several people in Britain died of what was almost certainly a human version of mad-cow disease, Europeans lost faith in their governments' ability to keep dangerous food off their plates. Since people in rich countries rarely go hungry, they were not wildly excited about the promise of cheap and abundant food. Perhaps they will change their minds when scientists create better rather than simply cheaper foods: cholesterol-free bacon, perhaps. But in the meantime, it is sad that the priorities of the well-fed few should make it harder for the world's hungry billions to feed themselves.

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Brains v bugs

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From The Economist print edition

Poor people now receive better medicine than rich ones did a century ago. But diseases, old and new, still need fighting

IMAGINE a hospital where the water is dirty, where tuberculosis is rife, and where the doctors are so ignorant that a patient has only a 50-50 chance of benefiting from a consultation. Imagine too, that most of the drugs prescribed are useless, and some are poisonous. This is a fair description of what health care was like in America a century ago. One in four children died before the age of 14, mostly from infectious diseases. In the early 20th century, Oliver Wendell Holmes, an American judge, declared that if all the medicines of his day were tossed into the ocean, it would be better for mankind and worse for the fish.

There's a pill in there somewhere

Health care in the developing world today is rather better than that. Poor people are living longer, not because the natural human lifespan has increased, but because many of the horrors that prevent people from reaching old age are being tamed. A child born in the developing world today can expect to live eight years longer than one born 30 years ago. Even in the world's 40 poorest countries, infant mortality in the past 30 years has fallen by a third. A recent World Bank study found that technical progress was the biggest single cause of reductions in mortality, accounting for up to half the improvement between 1960 and 1990.

Important discoveries have included:

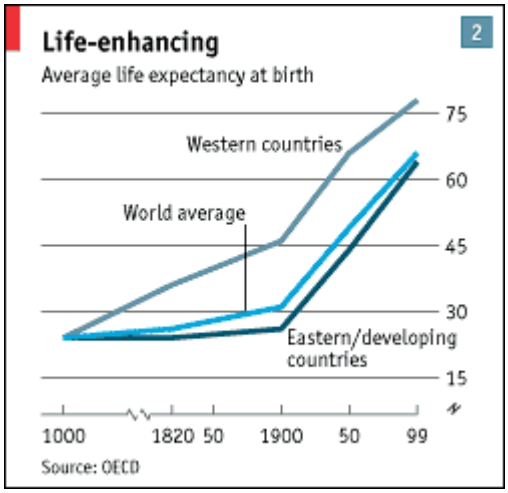
•**Vaccines.** Influenza, which killed around 20m people in 1918-19, is now largely under control. Smallpox was eradicated in 1979. Other foul diseases, including measles, whooping cough, rubella, diphtheria, tetanus and tuberculosis, have been curbed by vaccination. In recent decades, technology has made vaccines easier to deliver in poor countries. A droplet of polio vaccine can be swallowed: no need for needles. More heat-stable vaccines that do not need refrigeration have been created. Combination vaccines can be delivered in a single shot.

•**Antibiotics.** Penicillin was discovered in 1928, but a way to mass-produce it was invented only during the second world war. Since then, ever more sophisticated antibiotics have been marketed around the world. Infections that used to be fatal can now be cured in a trice.

•**Oral rehydration therapy (ORT).** This is one of the simplest and most effective medicines ever. Developed in Bangladesh, ORT has saved millions of babies from dying of diarrhoea. It is a mixture of sugar and salt dissolved in water that prevents dehydration and so keeps the child alive. Before ORT, the standard treatment was an intravenous drip, at a cost of $50 per baby. Packets of oral rehydration salts started being mass-produced in the 1980s, at a cost of less than 10 cents each.

Despite these and many other advances, ill health remains a huge problem for the poor. Thirty thousand children under five die each day from preventable causes. Debilitating parasites make multitudes too weak to work, or blind them. And in Africa, after a

century of progress, the rise in life expectancy stopped after 1990. In much of the southern and eastern part of the continent, people started dying younger because of AIDS.



The easiest way to fight disease in poor countries is to keep extending current technology into regions it has not yet reached. Two-thirds of diarrhoea cases are now treated with ORT, but that still leaves a lot of dehydrated children. In some of the poorest countries, such as Ethiopia and Burkina Faso, under 20% of those who need ORT receive it. The proportion of children worldwide inoculated against the six main vaccine-preventable diseases soared from 5% in 1974 to 74% in 1998, but what about the other 26%? More comprehensive jabbing could eliminate diseases completely, as happened with smallpox and could soon happen with polio.

However, blanket coverage by existing technologies is not the whole solution. For diseases that are not yet curable, new drugs must be found. New drugs are also needed for bugs that develop resistance to old drugs. And new vaccines are needed for new diseases.

Researchers have some handy tools. Biotechnology has spawned several useful drugs, including mass-produced insulin for diabetics and a vaccine for hepatitis B. More life-prolonging pills will follow. Genomics offers new ways to cure disease, by tampering with genes that contribute to cancer, for example, or by boosting genes that might fight it. Nanotechnology—fiddling with things as small as individual molecules—may allow the construction of robots small enough to remove blockages from capillaries.

Vaccines or Viagra?

The trouble is that most medical research is done in rich countries, for the benefit of rich people. The fattest profits are to be made from tackling chronic conditions that affect lots of westerners, such as heart disease and cancer. The ills of the poor are neglected: of the 1,223 drugs introduced between 1975 and 1996, only 13 were aimed at tropical diseases. In 1998, the world spent $70 billion on health research, but only $300m of this was directed at developing an AIDS vaccine, and a piffling $100m was devoted to malaria research.

When drug firms do produce pills that might help the poor, their patents allow them to charge monopoly prices which the poor cannot pay. The patented drugs that have curbed AIDS in rich countries can cost $10,000 a year. For most Africans, this is an impossible sum. Some AIDS activists cite that as evidence that “patents kill”.

This is unfair. Without patents, there would be no incentive for private companies to invent new medicines. Drug firms spend $300m-500m on creating a single pill. They could never recoup this investment if others were allowed to copy their ideas and sell them at a thin margin over what they cost to manufacture.

Patent protection is temporary and conditional. To win it, an invention must be original, useful and non-obvious. The inventor must reveal how his invention works, and publish the information. He is then typically granted the sole right to sell the product for 17-20 years from the time the patent application was filed. For drugs, the effective monopoly period is shorter: it can take a decade to develop, test and bring a patented molecule to market.

Abolishing patents would more or less halt progress in pharmacology, but there is a strong argument for charging different prices for drugs in poor countries. A treaty signed by most countries in 1994 allows governments to override patent protection during a national emergency. AIDS in Africa clearly qualifies as an emergency. Several drug firms have started to offer AIDS drugs to Africans at as little as a tenth of their normal price, partly in response to international pressure and partly because they were not generating much profit in Africa anyway.

Although this is welcome, it will not make as much difference as many hope. In most poor countries the patents on the drugs that people need most have already expired. If people still do not get them, it is either because the drugs are still too costly, or because the country's health-care system is a mess. In

most parts of Africa, AIDS cocktails are unaffordable even if sold at cost. Only a few countries are poor enough to qualify for discounts but rich enough to afford to buy discounted drugs. Of these, Brazil and Botswana have shown enthusiasm, but South Africa, despite having a larger number of HIV-positive citizens than any other country, has not. Public hospitals in South Africa rarely offer anti-retroviral drugs even to pregnant mothers to prevent their unborn children from contracting HIV, although this would save money as well as lives.

Differential pricing will not deal with the problem that drug firms' research concentrates mainly on ailments affecting rich people. Only public money can fill the gap. Foreign aid on this would be well spent. Malaria is estimated to cost Africa 1% of GDP every year: treating the symptoms is expensive, and few people can work while in the fever's grip. AIDS hurts southern and eastern Africans even more. Festus Mogae, the president of Botswana, has said that the virus threatens his country with extinction. Finding vaccines for these diseases would be a peerless public good. Some efforts are under way. For example, the International AIDS Vaccine Initiative (IAVI), launched by the Rockefeller Foundation, brings together states, academics and drug firms. One vaccine candidate started clinical trials in Kenya in January.

Big drug firms have heaps of know-how that could be harnessed to help the poor. One possible way, proposed by Jeffrey Sachs of Harvard University, would be for rich-country governments to promise to buy, at a reasonable price, any drug likely to bring about a big improvement in poor people's health. This should give drug firms an incentive to come up with an AIDS or malaria vaccine, or with better pills for tropical diseases. If they did not deliver, taxpayers would pay nothing.

Getting together

The more that developing countries themselves contribute to these efforts, the more likely they are to succeed. Not many can handle the whole process of drug discovery, development, testing and marketing on their own. But several have pockets of unique expertise, or a wide variety of potentially useful medicinal plants. For example, Vietnamese scientists extracted an effective malaria drug from a tree long used in traditional medicine.

Turning biodiversity into medicine is not easy, however. There has been only a handful of other recent triumphs. The Amazon jungle may well hide a cure for cancer, but no one has found it yet. The trouble is that countries with rainforests tend to lack pharmacological expertise, and the big drug firms that have the know-how are all based in countries without rainforests.

Unscrupulous western researchers sometimes solve the problem by stealing plants from poor countries. Some firms have learnt about the healing properties of plants from locals and patented the active ingredients without acknowledging the locals' contribution or rewarding them for it. Two cancer drugs, for example, were developed using a rose periwinkle plant found in Madagascar, but the country received no benefit.

Stopping “biopiracy” will be tricky, but multinational companies hate bad publicity, so many are striking fairer deals. The Brazilian government, for example, receives royalties from Novartis, a Swiss drug firm, for providing it with micro-organisms. Merck, an American drug firm, pays Costa Rica for samples of plants and insects, and promises a share of any future profits from them. Vanderlan Bolzani, the head of a public project to find bioactive compounds in Brazilian plants, approves of such deals. “In Brazil,” she says, “we know how to find potential drugs, but we don't have the capability to develop and test them. So we have to co-operate.”

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Fishermen on the net

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The digital revolution is helping the poor, too

The remittance is on its way

THE global great and good are obsessed with the “digital divide”. Half the people in the world, they fret, have never made a telephone call. Africa has less international bandwidth than Brazil's city of Sao Paulo. How, ask dozens of inter-governmental task-forces, can the poor get connected? Amid all the attention paid to developing countries' lack of Internet access, some people feel that more fundamental problems are being ignored. Ted Turner, an American media boss, observed last year that there was no point in giving people computers when they had no electricity.

He may be wrong. Indian scientists recently produced a prototype of a battery-powered device called the Simputer—short for “simple computer”—that is expected to cost only $200 a unit. Even at that price it may be too expensive for the truly poor. But computers can be shared. And the time may come when they will pay for themselves. Information and communication technology (ICT) may be overhyped, but it does matter. True, people in poor countries need food and medicine before they need Internet access, but ICT could help them lay hands on both of these more easily.

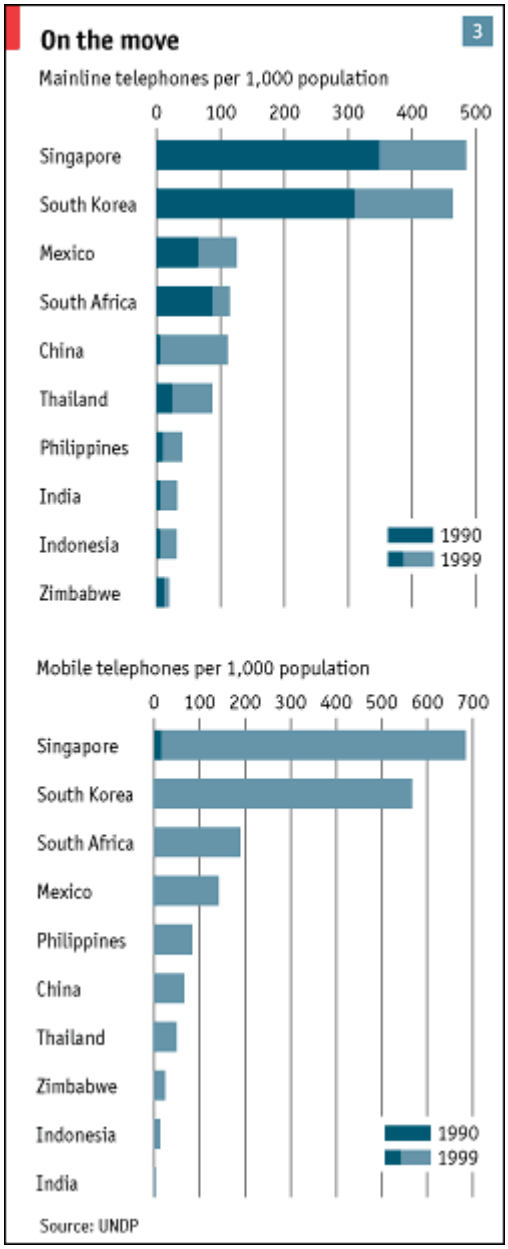
In several fishing villages on the Bay of Bengal, for example, an Internet link-up allows a volunteer to read weather forecasts from the US Navy's public website and broadcast them over a loudspeaker. For fishermen who work from little wooden boats, knowing that a storm is looming can mean the difference between life and death. The Internet also lets them know the market price for their catch, which helps them haggle with middlemen. And they can download satellite images revealing where fish shoals are.

Communication, as everybody knows, is getting cheaper. Any task that can be digitised can now be done at a distance, which creates all sorts of opportunities for developing countries. Fixing software for a London firm does not require Indians to travel to Britain. They can do it from Bangalore. That is why India's software industry has grown from almost nothing ten years ago into the most dynamic business on the subcontinent, employing 400,000 people and generating more than $8 billion in sales last year. The country has almost as many fluent English speakers as England, and universities that turn out hordes of computer-literate graduates. Charging a small fraction of what Californians demand, Indian programmers fixed a large chunk of the world's millennium-bug troubles, and take on a larger share of western companies' back-room operations each year.

And they are not the only ones. Dial a helpline for an American bank, and you may find yourself talking to someone in the Philippines or Puerto Rico. A computer screen tells the telephonist what the weather is like in whichever city the customer is calling from, and suggests appropriate responses to the customer's grumbles about the local baseball team's performance last night. Creepy? Maybe, but it lowers costs for consumers and creates jobs where none existed before.

Accurate, timely information is useful in almost any field. Take health care. The Internet is the quickest and cheapest way yet devised of disseminating medical research. Using websites such as Healthnet, doctors in poor countries can easily and cheaply keep up to speed with the latest developments in their field. In Bangladesh, the local Medinet system provides access to hundreds

of expensive medical journals for less than $1.50 a month. Throughout Africa, outbreaks of meningitis are tracked over the Internet so that epidemics can be stopped early.



Yuppie toys in rural Bangladesh

Granted, these health-care schemes mostly depend on charity for their funding. And the lack of Internet content in languages other than English is a problem. But new websites in other languages pop up every day. And as the cost of ICT falls, it may not be long before poor people start clubbing together to buy time online with their own money. It has already happened with mobile telephones.

For many Bangladeshi women, the mobile phone provides upward mobility. Women in rural areas borrow money from Grameen Bank, a microlender, to buy a GSM phone. Handsets can cost a year's income for the whole household, but more than 90% of borrowers are able to service their loans because they earn money charging other villagers to make calls.

Everyone benefits. In Bangladesh as a whole, 97% of homes lack a telephone. In rural areas, practically no one has a phone. So when a Grameen-backed phone entrepreneur sets up shop, the whole village is suddenly connected to the outside world. Parents can call the nearest city, for example, to find out what has happened to the remittance from their son working on a construction site in the Gulf. A telephone call can take the place of a long and expensive trip: one study found it typically saved between 3% and 10% of the caller's monthly household income.

The service also turns a profit. The callers may be poor, but because there are so many of them, rural phones in Bangladesh generate more revenue than urban ones. Grameen Phone, a Grameen Bank offshoot founded to provide services for the poor, now sells to everyone and has become the largest provider of mobile-phone services in Bangladesh.

Mobile phones are popular everywhere, but in poor countries they have extra advantages. It is quicker

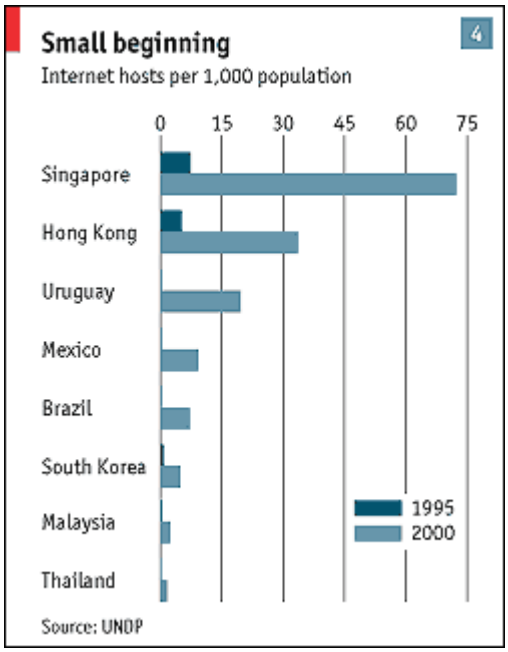
and cheaper to sell a poor person a mobile telephone than to install a payphone in a remote village. A phone in someone's house is constantly guarded, which makes it unlikely to be vandalised.

Mobiles are user-friendly, too. Fixed-line telephone services in most developing countries are provided by awful state-owned monopolies. Ask for a telephone line to be installed in your home in Zimbabwe, and you can choose between bribing someone or waiting for several years. But if you walk into a mobile-phone shop, your handset will be up and running in five minutes.

Nor is lack of a credit history a problem. Poor people are barred from opening accounts with traditional telephone companies because no one trusts them to pay their bills. With mobiles, however, they can buy pre-paid cards. When they have used up all their minutes, they buy another. There is no chance that they will receive an unmanageable bill at the end of the month.

Because the mobile-phone companies get paid in advance, they waste no time or money on chasing bad debts, as fixed-line firms do. So their cashflow is better and they are able to expand their networks faster. In many poor countries the number of mobile users has overtaken the number of land-line users in less time than it takes to get a land line installed. In Uganda, for example, it took two years for MTN, a private mobile-phone firm, to outstrip UTL, the clumsy state-owned telecoms firm. Before it was privatised last year, UTL in a typical year lost 40% of revenues in bad debts, and another 30% because of “audit adjustments”. In 1997-99, the number of land-line users in Uganda inched up from 54,000 to 59,000. Over the same period, the number of mobile users exploded from 7,000 to 87,000.

This still means that only one Ugandan in 240 has a mobile phone, but it's a start. And ICT is spreading faster than any technology in the whole of human history. In 1900, 24 years after the telephone was invented, only 5% of homes in America were hooked up to the telephone network. In most other countries, the figure was negligible. Compare this with the spread of the Internet. In 2000, 18 years after the creation of a rudimentary Internet and 11 years after the beginning of the World Wide Web, 6.7% of the world's population were logging on. In other words, the Internet is spreading around the whole world faster than the telephone spread around its richest country a century ago.



The poor are catching up

And poor countries, for once, are not missing out on this revolution. In 1998, according to the UNDP, only 12% of Internet users were in non-OECD (ie, less developed) countries. By 2000 this proportion had almost doubled, to 21%, when the cake itself had more than doubled in size over the same period.

The Internet is not only a marvellous technology; it is a tool that helps developing countries to adopt outside technology faster, and sometimes to develop their own. The makers of the Simputer used free open-source software, which they could not have downloaded without the Internet. Indeed, without the Internet, open-source software would not exist, as it depends on large numbers of volunteer programmers swapping ideas online.

In developing countries scientists are thin on the ground. A decade ago, if a researcher from a poor country wanted to bounce ideas off lots of other experts every day, he probably had to move to a rich country. Now he simply logs on. Cheaper communications mean more north-south collaboration, and indeed more south-south collaboration. In 1995-97, American scientists co-wrote papers with colleagues from 173 other countries. Kenyans published papers with scientists from 81 other nations.

The Internet also allows more collaboration within countries. Brazilian biologists work with colleagues at opposite ends of the Amazon river and on both sides of the equator. Some of them surprised the world

last year by sequencing the genome of a bacterium that shrivels oranges. It was the first time that a free-living plant pathogen had been sequenced anywhere, a breakthrough for southern-hemisphere science. According to Andrew Simpson, one of the project's leaders and an old Brazil hand, this would not have been possible without the Internet. “It's a godsend,” he says. “It gives us confidence that what we are doing is as good as what is going on in America, because we can see what is going on in America.”

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Wired schools, wired nations

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Growing up with technology makes it easier to embrace

SOMETHING unheard-of is happening in South Korea: students are starting to challenge their teachers. They would never have dreamt of it in face-to-face encounters, but electronic communications are a different matter. Now that all the schools have been wired, once-shy pupils have begun to bombard their teachers with questions and even complaints. Older teachers find the change disturbing, but younger ones see it as necessary preparation for life in the 21st century.

I'd rather be surfing

The habits of hard work and self-discipline that South Korean schools have long drummed into their charges remain useful, as do the high standards of literacy and numeracy for which their pupils are envied. But if the country is to move beyond taking other people's inventions and manufacturing them more cheaply, its youngsters will need to think more creatively. It's a daunting task, but one that the Internet makes a little easier.

The drive to foster more creativity pre-dates the arrival of the Internet, and South Korean schools have been wired for only four years, so it is too early to be sure what difference ICT is making to the country's education system. But anecdotal evidence suggests that the change is already noticeable, and mainly to the good.

Schools share teaching ideas online. Parents can keep track of what their children are going to study by visiting school websites. Students have more opportunity to try things: to conduct simulations of scientific experiments, for example, rather than simply learning the results by rote. “Multimedia makes classes more fun,” says Kim Jun Hyung, director of information technology at the Ministry of Education in Seoul. “And parents approve. Most families have PCs now, and they all cite their children's education as the reason for buying them.”

Are the kids learning new skills? It seems they are. The amount of hacking soars during the school holidays. New viruses appear, school records are broken into and some pupils' grades are retrospectively improved. A number of bright students have dropped out of college—something that would have been considered shameful only a decade ago—to start software companies.

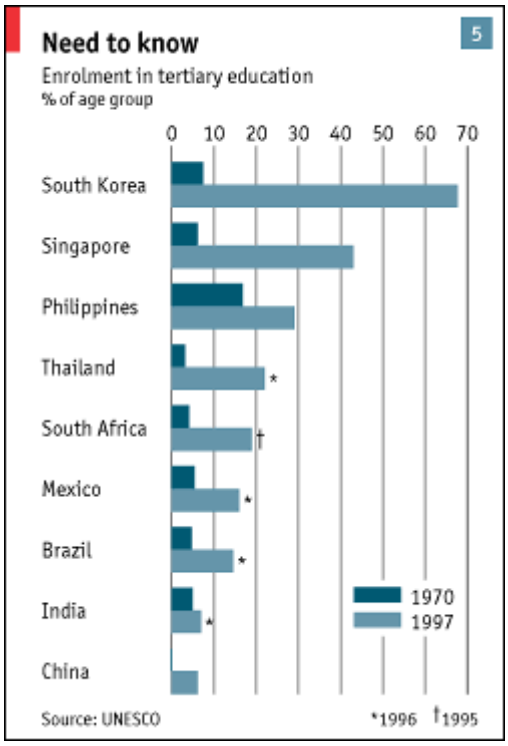
Getting the basics right

In classrooms all over the developing world, ICT is proving useful. In some countries, “distance learning” helps to compensate for teacher shortages. In Botswana, for example, a sparsely populated desert country where many teachers have died of AIDS, a free three-month Internet-based course evaluated by the University of Botswana boosted students' test scores by half. But computers and modems cannot magically make bad schools good. If the teacher is drunk or absent, or if parents send their daughters to work in the fields rather than pay school fees, the fix must be institutional, not technological.

There is a lot of encouraging evidence that education is improving in most places. In the early 1920s, under 25% of children born in poor countries learned to read. By 1999, three-quarters of adults in developing countries were literate. In every country for which the UNDP could find data, literacy in the past 15 years has improved or at least remained constant. Against that, countries for which no data are available, such as blood-soaked Angola and Sierra Leone, are bound to have done worse than the rest, so the average is probably not as good as it looks. What is more, with the world changing so fast, literacy is not enough. To take advantage of technology, developing countries need better scientific and mathematical skills.

Poor countries have too often tried to build education systems from the top down. In Latin America and Africa, funds and attention were lavished on universities before there were enough adequately prepared schoolchildren to fill them. East Asian countries, by contrast, have tended to put first things first. Japan introduced universal and compulsory primary education in 1872, when its citizens, on average, were no richer than the people of Djibouti are today. Other East Asian countries achieved universal primary schooling in the 1970s. Secondary education initially lagged behind Latin America, but surged ahead in the 1980s, as the “tiger” economies boomed and demand for skilled workers soared. Tertiary enrolments rose last: in South Korea, from 16% of the relevant age group in 1980 to 68% in 1997.

East Asian schools show that how much you spend on education is less important than the way you spend it. Spending on public education in East Asia was only about 2.5% of GNP in 1960, inching up to 2.9% by 1997. Other developing countries spent far more—3.9% on average—while African governments shelled out a hefty 5.1%. As East Asia grew richer, the absolute level of spending rose, but not nearly to the levels common in Western Europe or North America. And yet East Asian students consistently thrashed everyone else in internationally comparable tests. How did they do it?



What went on outside school made a big difference. For example, mothers nagged children to do their homework, and the job market put a premium on a good education. But what went on in the classroom was important, too. The state saw its role as making sure that every child learnt to read, write and work with numbers. Calculators were forbidden until students could do sums in their heads. Laggards were coached until they reached the required standard.

Teachers addressed the whole class at once, sometimes quizzing individual students to make sure everyone was following. Classes were large. This is usually considered a bad thing because students get less individual attention. However, given a limited budget, there is a trade-off between class size and teachers' pay. Because it had fewer teachers, South Korea was able to pay them more, relative to average income, than any other OECD country, which helped recruit better teachers.

Higher learning

The benefits of primary education accrue to society at large; those of higher education go mainly to those individuals who receive it. That is why most East Asian countries (except Singapore) make advanced students pay for their tuition. Poor but bright students can win scholarships. For most young people, however, university is a costly venture, which may help to explain why so many South Koreans opt for the kind of technical subjects that lead to reliably well-paid careers.

No country produces enough technically skilled people to match demand, but some developing countries do fairly well on this score. China, India and the four Asian tigers (South Korea, Hong Kong, Taiwan and Singapore) between them have about 3m college students enrolled in technical subjects. The trouble is that many of the best will emigrate.

The “brain drain” is a problem for all developing countries. South Africa loses 15-20% of its skilled technical workers each year. By one estimate, more than half of college students from developing countries who study abroad never return. More liberal American visa rules for ICT professionals

introduced last year were expected to attract 100,000 Indians a year before the bubble burst.

The Indian government naturally resents paying up to $20,000 per head to educate these people only to see them take their skills to a rich country, but in the short term there is not much it can do about it. Taxes on emigrants would be easy to dodge. Governments such as South Africa's and Malaysia's, which discriminate against ethnic minorities with technical skills, might slow the exodus of such people if they stopped discriminating, but show no inclination to try. In the long run, the best bet is to create an environment where such people can find challenging and adequately rewarded jobs at home.

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How countries go high-tech

Nov 8th 2001
From The Economist print edition

Policy makes all the difference

IN MOST countries, selling alcohol to motorists is discouraged, but service stations in Brazil sell it by the litre—to put in people's cars. When the price of oil jumped in the 1970s, the Brazilian government decided to develop an alternative that did not rely on imports. It chose ethanol, made from home-grown sugar.

Fuel doesn't come greener than this

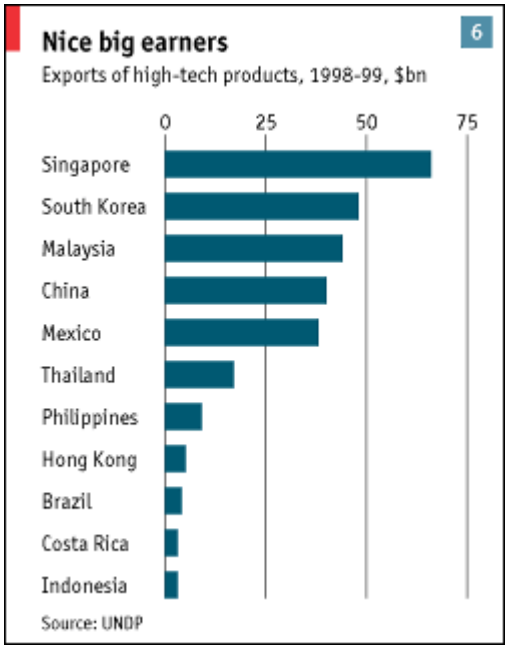
The intentions were noble. Besides reducing the country's vulnerability to OPEC price hikes, the alcohol-fuelled car was supposed to cut pollution and stimulate research in Brazil. From a technological perspective, the plan worked. Domestic manufacturers successfully produced cars that ran on ethanol. The trouble was that ethanol was both more expensive and less efficient than petrol. Motorists would not use it unless they were given a financial incentive.

The government duly provided one by subsidising ethanol to sell at 60% of the price of petrol. Before long, most of the cars sold in Brazil were ethanol-powered. Unfortunately, ethanol subsidies helped to get the public finances in a mess. The government printed money, thereby sparking hyperinflation. Among other things, this crippled Brazilian science. Researchers could win a government grant to build a laboratory, only to find that by the time the money was disbursed it was barely enough to buy a pair of protective goggles. Long-term planning became pointless. Businesses that might otherwise have invested in R&D did not bother.

Politicians in poor countries all want their countries to become more technologically competent but, as Brazil's story illustrates, it is hard for governments to pick winners in technology. If a developing country is to start coming up with inventions of its own, it needs the kind of political, social and economic arrangements that foster innovation. But what might these be?

Naturally, the example that most people look to is America. Politicians everywhere want to build a Silicon Valley in their own country, but they can't. America's thriving high-tech industries were not planned. Silicon Valley is what happens when thousands of scientists and entrepreneurs migrate to a sunny rich state with tough patent laws, a sophisticated financial system and a culture of inventing things and making money out of them. All these things take time to evolve. Governments can remove obstacles and push things in the right direction, but when they start making detailed plans they tend to come unstuck. Public investment in basic science is useful, for those who can afford it. But public investment in developing high-tech products is usually wasteful.

Many of the things that governments can do to promote technology are worth doing anyway. An obvious one is maintaining peace and stability. Clever people are mobile, and mostly prefer not to live in war zones. Other important factors include an open attitude to trade and investment, a sound infrastructure, a sensible approach to intellectual property and a flexible financial system.



Isolating yourself from the rest of the world is a sure way to stay technologically backward. At an exhibition in North Korea, your correspondent was shown a computer with a “North Korean” operating system. It did not seem to do much. Asked why, the party functionary in charge said it was “in display mode”. Your correspondent furtively re-booted it and discovered that the software was made by Texas Instruments. “Self-reliance” as practised in North Korea used to be a popular concept in poor countries. In Africa, Latin America and India, many governments made a virtue of shutting out foreign goods and investment. Inevitably they shut out ideas, too. With no foreign competition, local firms had no one to learn from and little incentive to make their own products better.

Give a little, take a little

In the past decade or two, most developing countries have opened up a bit. Freer trade has brought in new products, which can be taken apart and copied. Foreign direct investment (FDI) has spread skills and technology. When Motorola builds a factory in China, it trains Chinese engineers. When BMW and DaimlerChrysler build cars in South Africa, they transfer know-how to their local suppliers.

Big countries can lure foreigners with the prospect of, say, putting their personal organisers in a billion Chinese palms. China uses the carrot of its potentially huge domestic market to persuade foreigners to share their technology with local partners. Small countries do not have this option, so many of them, controversially, offer fiscal incentives instead. In Costa Rica, for example, Intel was given a bundle of tax concessions to build a factory. Other high-tech firms followed, transforming the tiny Latin American country from a banana plantation into a microchip exporter.

Ethnic ties can help, too. Much of the money pouring into China comes from the 50m-strong Chinese diaspora. Israel's software and biotech industries thrive on links with Jews in Europe and America. India's brain drain sometimes turns to gain when Indians working in Silicon Valley use their cash and contacts to set up new ICT firms back in Bangalore.

Besides its other benefits, high-tech trade makes people richer. In 1985-98, developing countries' exports of high-tech products grew 12-fold. Over the same period, their exports of things grown in the ground or dug out of it rose by a paltry 14%. By 1999, high-tech goods made up a larger proportion of the exports of developing countries than of industrial ones.

AP

A sophisticated way to lose money

A decade ago, scientists in Bangkok wasted hours each day seething and choking in stationary traffic. Many left the city. Now the Thai capital has an air-conditioned overhead railway, and some journeys that used to take all morning can be made in ten minutes. The city is still congested, but it's a start.

The joys of leapfrogging

Countries with poor infrastructure need not despair. Like Thailand, they can leapfrog to the next technology. In building a railway network, they do not have to go through the steam age first. When setting up a telephone system, they can go straight to fibre optics and mobile telephones. Some developing countries have built a better communications infrastructure than many rich countries enjoy. Brazil, for example, which stopped trying to be self-sufficient in the 1990s, now has more broadband DSL lines per head than Britain. In South Korea, 40% of households have broadband Internet connections, and most share trading is done online.

But are all these good things too expensive for struggling developing countries? Not necessarily. The great thing about a telephone network is that you do not have to build it yourself. The firms that know how to wire countries are usually willing to do so at no cost to the public purse, so long as they can then charge people to make calls. In fact, they will often pay good money for the privilege. This year, Nigeria raised $570m by auctioning licences to set up mobile networks.

In most developing countries, the national telephone monopoly is an object of ridicule and rage. Slow, expensive connections are the main reason why monthly Internet access charges are six times the average monthly income in Madagascar, and nearly three times in Nepal. (In America, the figure is more like 1%.) Some monopolies block progress with an energy their customers can only wish they brought to bear on their main business. In Kenya, for example, the state telephone firm had the country's only Internet exchange-point shut down, forcing local surfers to use overseas links at 15 times the cost.

But things are improving. Twenty years ago, competitive telephone markets were almost unheard of. Last year, the International Telecommunications Union (ITU), in a survey of 183 countries, found that 38 enjoyed a competitive market for fixed-line international telephone calls. Sixteen countries had a duopoly. The remaining 129 endured monopolies, but many plan to end them. Where competition is allowed, service invariably improves, bandwidth expands and prices fall. In South Korea, where five mobile-telephone firms are at each other's throats, handsets are given away and the number of new subscribers has soared.

Trade and telephones stimulate innovation by linking clever people with other clever people anywhere in the world. In promoting growth, these things are probably more important than education. A World Bank study found that average incomes in countries where people were free to trade and had easy access to telephones grew swiftly even if the education system was not much good. In well-educated countries with restricted trade and few telephones, per-head incomes grew more slowly. Not surprisingly, countries that scored well on both counts did best.

Until recently, the forms that Chinese bureaucrats filled in when buying computer systems did not contain a space for the cost of software. Why pay for something that can easily be copied? Steal a cow in a Zambian market, and you may get killed before the police arrive. But set up a stall selling pirated Madonna CDs, and probably no one will mind. Poor countries rarely protect intellectual property. Some say they are right not to bother. Most patents are held by rich westerners. Poor countries, runs the argument, will never scale the technology ladder if Merck and Microsoft extract royalties at every rung.

The counter-argument goes like this. Piracy is a cheap way to climb the lower rungs, but it takes you only so far. Failure to respect intellectual property rights deters high-tech FDI. Firms will not bring technology to countries where it can be stolen with impunity. Furthermore, if poor countries do not reward innovation, their people will have no incentive to innovate. Several Indian biotech firms that export their products are wary of selling them at home for fear of piracy.

Many developing countries are now trying harder to uphold intellectual property rights. In 1994, 141 countries signed TRIPS, an agreement to tighten patent protection. Royalties need not always flow from poor to rich. Brazil and India, for example, are considering laws to oblige foreign companies to make payments to indigenous people if they turn local plants into drugs or other commercial products.

One area where poor countries can free-ride with impunity is in regulation. It takes time, money and expertise to determine whether a drug or foodstuff is safe. Agencies such as America's Food and Drug Administration have huge budgets and make few mistakes. Poor countries could save millions, and get valuable medicines on the shelves more quickly, if they simply decided that a product safe enough for Americans was safe enough for them, unless there was good reason to assume that, for example, it might work differently in a tropical climate. This is already happening: a dozen East European countries now recognise rulings by the European Union's drug-approval agency.

Putting money where the brains are

Scientists must eat. They also need money for computers, test tubes and bits of pig to experiment on. Developing countries have two difficulties in funding their own R&D. One, obviously, is lack of money. The other is that even if they have spare cash, they do not usually have flexible and efficient mechanisms for directing it to useful research.

In many developing countries, science is almost entirely state-funded. In the Philippines, for example, public spending on R&D accounts for 98% of the total. There is nothing wrong with public funding, but on its own it is never enough. In all advanced countries, public and private research complement each other. Taxpayers' dollars paid for the basic research that underpinned the Internet, but it took private companies to enable users to access the web. Public laboratories helped sequence the human genome, but it will be profit-driven pharmaceutical firms that turn genomic data into drugs.

In America, people with good ideas can usually find the cash to put them into practice. American venture-capital funds have bundles of the stuff to invest in risky projects. High-tech firms can raise yet more money by listing their shares on Nasdaq. In the late 1990s, investors grew absurdly over-enthusiastic about technology stocks and caused a bubble. When it burst last year, many start-ups died. The booms and busts of Californian capitalism can be alarming. But no other system yet devised channels so much money into technology so quickly, nor pulls the plug so quickly when an idea proves to be a dud.

More venturesome 7

New venture capital, $m

	1995	2000
United States	4,566	103,170
Hong Kong	245	769
Singapore	5	651
India	3	342
China	-	84
South Korea	1	65
Philippines	2	9
South Africa	-	3

Source: UNDP

In the developing countries that have caught up fastest, private investment has played a crucial role (see chart 7). No poor country has capital markets like America's, of course. Bio Solutions, the Thai biotech firm mentioned earlier, could not lay its hands on venture capital, because there are hardly any venture capitalists in Thailand. Instead, it secured seed money in the traditional way: from the founder's family. This method works admirably if you have wealthy parents. However, a young Thai with a good idea but no connections will probably fail to get any funding.

As capital flows more freely across borders, developing-world entrepreneurs can increasingly tap rich countries' savings. And some developing countries are copying aspects of western capital markets at home. The transformation in South Korea has been striking. In the 1970s, only a fifth of Korean R&D was privately financed; now the proportion is four-fifths. The Asian economic crisis of 1997 prompted a further shake-up. Before then, most private R&D was done within huge conglomerates, or *chaebol*, that were financed by bank loans. Lenders assumed that the government would never let the biggest *chaebol* fail, and so let them over-borrow. Small firms, meanwhile, found it almost impossible to raise money.

Climate change

In 1997, South Korea nearly defaulted. The most indebted *chaebol* went bankrupt and were broken up. Those that were left realised they had to change. They cut their workforces and their debts, and started outsourcing more high-tech work to small companies. At the same time, the government rushed to stimulate high-tech start-ups. Hefty tax breaks and subsidies for venture capital (VC) created a new market, and VC investments shot up from $1m in 1995 to $65m in 2000. *Chaebol* employees left what they had always assumed were jobs for life to set up firms making things like mobile-phone components. University students got funding to design and market computer games. New firms scurried to list on Kosdaq, the Korean Nasdaq, whose market capitalisation soared from $7 billion in March 1999 to $113 billion a year later. Kosdaq slumped at the same time as Nasdaq, and is now capitalised at a more modest $25 billion.

Good Korean ideas now get the backing they deserve, according to Yoo Hyang Sook, director of the state-funded Centre for the Functional Analysis of the Human Genome in Taejon, south of Seoul. “If your idea has obvious commercial applications, you can easily get money from a venture-capital fund,” she says. “If you are pursuing basic research, the government helps as much as it can.” Others think the state has wasted a fortune. Richard Kim, president of Venture Source, a firm that matches local entrepreneurs with foreign investors, reckons that only a small fraction of recent start-ups are making profits, and that many simply took the government subsidy and disappeared.

It is too early to say who is right, but no one could fail to be impressed by the speed at which South Korea keeps adapting to a changing world. Koreans will tell you that this is because Korean culture welcomes change. But that is not a uniquely Korean trait. When the benefits of something new are obvious, people are usually quick to embrace it. And since the benefits of many recent inventions are indeed obvious, many staid, traditional societies are changing in whatever ways are necessary to take advantage of them.

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Keep it simple

Nov 8th 2001
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High tech is not the only tech

GOOD ideas are not always complex. Take the Hippo Roller, a South African invention, which in essence is a plastic barrel with a handle. Placed on its side, it can be filled with water and pushed along like the wheel of a wheelbarrow. Women find they can roll four times as much water in a Hippo Roller as they used to carry in buckets on their heads, so they make fewer ten-mile treks to the water hole. In some South African villages, young men think the Hippo so cool that they have started fetching the water themselves.

Happy with a hippo

Technologies that improve people's lives do not have to contain microchips, nor do they have to cost hundreds of millions of dollars to develop. Clay ovens, for example, are more fuel-efficient than cooking pots balanced on stones, saving poor families hours of gathering firewood each day. Plastic syringes with ratchets to prevent re-use stop infections from being spread by dirty needles. Simple products can be hugely successful: think of the fortunes made from cardboard milk cartons and Post-It notes. If a new device fills an unmet need, people will buy it.

In poor countries, however, the connection between demand and supply is sometimes lost. When a country relies on foreign aid to pay for poverty-relief programmes, it often has to spend the money in ways that reflect the donors' priorities rather than the recipients' needs. Aid is sometimes tied to the purchase of goods from the donor country, which is why so many African villages have broken-down tractors they do not know how to repair. Big donors sometimes have a bias in favour of big projects with obvious results, which is why so many third-world peasants have had to make way for dams.

Big dams and power stations tend to supply the national electricity grid, which often does not extend to poor people's homes. Many national grids in developing countries are publicly owned and broke, and therefore unlikely to bring electricity to rural homes in the foreseeable future. But there may be an alternative: micropower. Small turbines on small rivers can provide enough energy for medium-sized villages in Sri Lanka or Peru. The poor are prepared to pay for electricity, even though most micropower schemes still need to be subsidised. Deregulation could help. The abolition of public power monopolies would leave micropower generators free to sell surplus electricity to the national grid, raising money and perhaps easing power shortages elsewhere.

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Fewer buffaloes, livelier democracy

Nov 8th 2001
From The Economist print edition

Technology is shaking up culture, society and politics, mostly for the better

A tractor would be handier

THE king of Thailand is campaigning to save the water buffalo. These sturdy animals once pulled every plough in Thailand, but they are being replaced by tractors. The rhythm of country life has changed. Man and beast no longer toil together in harmony. The king worries that a valuable part of Thai culture is vanishing.

Thai farmers, however, like their new machines. They don't have to be fed before dawn, or mucked out. They don't try to escape, or trample the neighbour's crops. Most important, they get the job done faster and with less effort, so the farmer can put his feet up and watch television.

Technology makes many people uneasy. They wonder if it is safe, and they have trouble coping with constant change. Such worries are understandable. Many new inventions are indeed dangerous. Aeroplanes can crash, chemical factories can leak and smart bombs are expressly designed to kill. But these dangers should be measured against those of the past. Aeroplanes are much safer than any previous method of travelling long distances. Chemicals keep food free of lethal germs. And wars fought with primitive weapons are just as bloody: think of Rwanda.

Nothing is perfectly safe, and safeguards themselves have costs. Insisting on longer trials for drugs or GM foods might reduce the risk that people will ingest something harmful, but it also delays potentially life-saving medicines reaching patients, or higher-yielding seeds reaching Peruvian peasants. Stricter safety standards can cut short more lives than they save, and make things more expensive.

When electric light bulbs were introduced, the *New York Times* gave warning that they might cause blindness. In 17th-century Europe there was a movement to ban coffee, which was feared to cause paralysis. When humans first learned to make fire, some doubtless got burnt, but meat is tastier and more wholesome roasted than raw.

Even if new gadgets will not harm our bodies, what of our souls? What if television kills traditional songs and festivals, or persuades people to swap ancient religious principles for the empty materialism glamorised in American soap operas? It is a worry. But a glance at the world's most technologically advanced countries suggests that the new does not necessarily drive out the old. As America has grown more sophisticated technologically, it has not grown noticeably less religious. Television in Japan has not killed *kabuki* theatre; instead, it has projected it to a wider audience. People tend to preserve the traditions they value, and ditch the ones they do not care about. Many Chinese scientists respect *feng shui*, and many Africans pray to their ancestors. But foot-binding has ceased, and witches are lynched only in the most backward villages.

Power to the individual

The most important way that technology shapes culture is by increasing the power of individuals. If rural life seems oppressive, buses make it easier to go to the city and get a job. Modern contraceptives give women more control over their own fertility. Drudgery-relieving devices free up time for more rewarding activities.

Technology can also shift the balance of power between ordinary people and their rulers. Last January, for example, text messages swapped among mobile telephones helped to topple a corrupt and

incompetent Philippine president. Joseph Estrada outwitted an attempted impeachment, but was overthrown in a bloodless coup after hundreds of thousands of protesters massed in Manila to demand his removal. The crowds were raised with the message: “Full mblsn tday Edsa”. It was short for “full mobilisation today at the Edsa shrine in Manila”. Opposition leaders sent it to every mobile number they knew. Recipients buzzed it to every number stored in their handsets. Within minutes, millions knew what was afoot.

Modern communications can make dissent safer. In 1986, when Filipinos threw out an even worse president, Ferdinand Marcos, it took months to organise rallies. Messengers had to catch ferries between the archipelago's 2,000 inhabited islands to spread the word. If the secret police caught them, the message did not get through. This year the messages were unstoppable, and their senders were untraceable. Most were using prepaid cards to charge their phones, which allowed them to remain anonymous. Authoritarian regimes from China to Saudi Arabia still silence subversion, but they cannot always stop people from visiting banned websites. Technically skilled dissidents can download software that routes them around government firewalls.

In more democratic countries, the web lets civic groups organise and swap information. Four years ago, most South Koreans barely knew what an NGO was. Now there are thousands of them: blacklisting corrupt politicians at election time, lobbying for friendlier (or more hostile) ties with North Korea, networking with foreign NGOs and, of course, campaigning against globalisation.

Electronic communications help make societies less hierarchical. “When you send an e-mail,” says Sakiko Fukuda-Parr, the main author of a recent UNDP report on technology and development, “no one can see the cut of your suit, and no secretary blocks your path to the minister's office.” Within companies, too, junior employees who would never have dared knock on the chief executive's door might send him an idea electronically.

The decline of deference is both a cause and a consequence of technological progress. In pre-industrial societies, authority generally derived from age or genealogy. In 18th-century France or 20th-century rural Malawi, sons deferred to fathers and ordinary folk to hereditary chiefs. Such traditional attitudes had their uses, but they did not foster innovation. Scientific inquiry requires people to question received wisdom, and to draw conclusions based on evidence. This was how the West first overtook the older and then more technologically advanced civilisations of China and India. According to Mohamed Hassan, director of the Third World Academy of Sciences in Trieste, deference still slows research in many third-world laboratories. When young researchers are afraid to challenge their professors, precocious insights are sometimes lost.

It's your choice

Young Thai men used to spend years in Buddhist monasteries, cultivating their spirituality. These days they cannot spare so much time. Typically, they spend only a few weeks shut away studying the *sutras* before they rush back to the city. No one forced them to change their priorities. If they choose, they can spend their whole lives in a monastery. But for the most part, they choose not to.

No one is forced to take part in our modern, technology-adoring society. Anyone who would rather go and live on nuts and berries in the forest is free to do so. But most people like what modern technology has to offer, and fret only that they cannot get enough of it.

Developing countries are making the same transition that Europe, America and Japan made earlier, only faster. This causes strains. In Britain, the upheavals of the industrial revolution were spread over several generations. The East Asian tigers packed an equally momentous change into a single generation. Future catch-ups may be even quicker and more traumatic.

Failure to adapt is bound to hurt some people. The invention of synthetic indigo dyes bankrupted indigo farmers in El Salvador. As more countries lay fibre-optic cables, Zambian copper miners are laid off. But the winners will greatly outnumber the losers. Thanks to technology, people in developing countries today have fuller stomachs, longer lives and fewer nasty illnesses than ever before. They are also less poor and have many more choices about how they want to live.

There is no reason why, in 50 years' time, the average citizen of the developing world should not be as comfortably off as Americans are today. As current technologies get cheaper, they will spread. As the Internet keeps scientists in Africa, Asia and Latin America abreast of the latest developments in their

field, they will start to produce more breakthroughs themselves.

Predatory and incompetent governments will doubtless continue to hold some poor countries back. But taken as a whole, the developing world has one great advantage that rich countries can never match. They can call on five times as many brains, and the gap is getting wider.

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Among the sources the author found most helpful in researching this survey were the UNDP's Human Development Report 2001, "Making New Technologies Work for Human Development"; the World Bank's World Development Report 1998/99, "Knowledge for Development"; and a cheerful book by Stephen Moore and Julian Simon, "It's Getting Better All the Time: 100 Greatest Trends of the Last 100 Years", Cato Institute, 2000; "The World Economy: A Millennial Perspective", by Angus Maddison, OECD 2001.

Lots more about information and communication technology can be found at www.itu.int or at www.worldbank.org/ict.

The Intermediate Technology Development Group, which lobbies for low-tech solutions to poor people's problems, has a website at www.itdg.org.

Thanks to Richard Lloyd Parry of the (London) *Independent*, for his masterly account of how text messages sustained a revolution in the Philippines, and to John Murphy of the *Baltimore Sun* for reporting on how the Hippo Roller helps the people of Kgautswane, South Africa.

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Microsoft

An unsettling settlement

Nov 8th 2001 | SAN FRANCISCO
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Although nine states have rebuffed Microsoft's deal with the Justice Department, the company is unlikely to get more than a slap on the wrist

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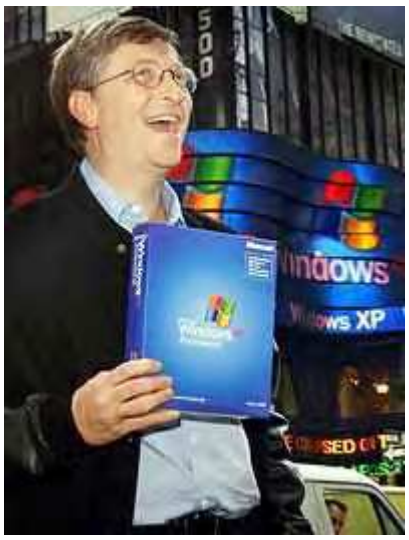
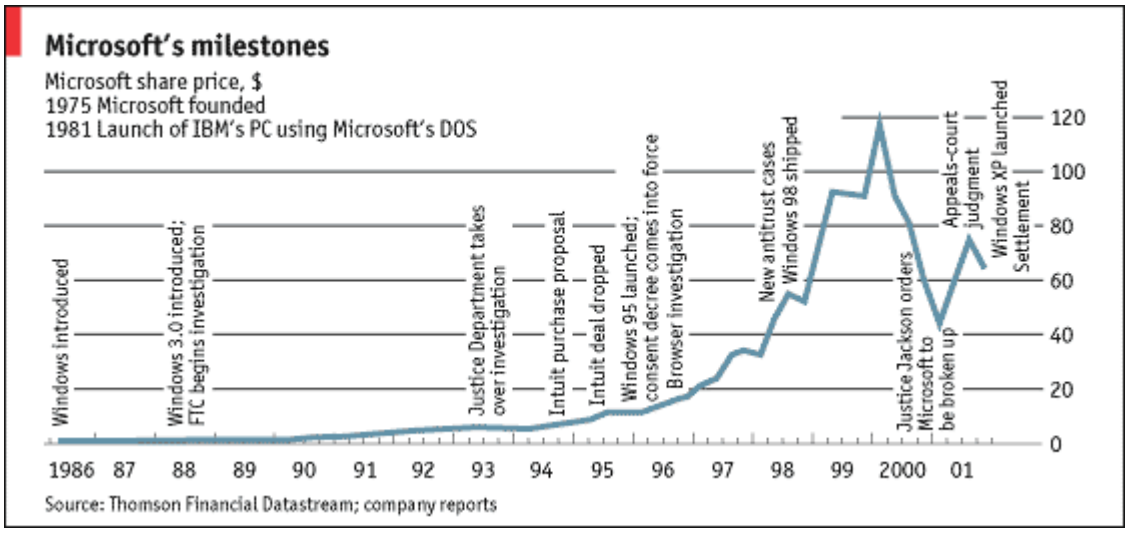


Bill feels XPialidocious

ANTITRUST experts had a strong feeling of déjà vu after the Justice Department and Microsoft announced on November 2nd that they had reached a settlement. The dominant reaction was that Charles James, head of the department's antitrust division, had cut a bad deal under time pressure—just as had Anne Bingaman, the trustbuster who negotiated the first "consent decree" with the software giant back in July 1994.

If the settlement goes into effect in its current form, Microsoft will once again get away with a slap on the wrist—even after last-minute "clarifications" negotiated by the 18 state attorneys-general who are, along with the Justice Department, the plaintiffs in the case. The agreement would, in effect, turn the company's defeat in court into victory—an astounding turn of events after even the conservative Washington, DC, appeals court unanimously found that Microsoft had repeatedly abused its monopoly power. Although half of the attorneys-general decided this week not to sign the settlement, opting instead to pursue litigation, they are unlikely to succeed in greatly toughening the penalties on Microsoft.

To understand the settlement, it helps to read from the end. "The software code that comprises a Windows Operating System Product shall be determined by Microsoft in its sole discretion," says one of the document's last sentences. This means that the question underlying the entire case has been clearly answered in Microsoft's favour: it can freely add other software elements to its flagship program, even if this expands its monopoly.



Even better for Microsoft, the agreement fails to administer any penalty for its past misdeeds. A "remedies decree" in an antitrust case is supposed, among other things, to "deny to the defendant the fruits of its statutory violation", according to the Supreme Court. For instance, Microsoft could have been required to place its browser technology in the public domain. But in the proposed settlement, the firm

does not even have to admit that it behaved illegally.

Given its fundamental bias in favour of Microsoft, the settlement's actual provisions are almost secondary. They attempt to restrict Microsoft's conduct and to increase competition in two main ways. The first is to give PC makers more freedom to hide Microsoft “middleware” (mainly its Internet-related programs, such as a web browser and an online music player) and to install competing software. Microsoft will not be allowed to stop the Dells and Compaqs of this world from installing icons or links to competing middleware. The firm must also make it possible for PC makers to remove access to Microsoft middleware and to designate other programs as default options. And Microsoft will be required to offer the same licensing terms to all its big customers.

The agreement's second main goal is to put Microsoft and competing software vendors on to a more level playing-field. The firm must now publish the specifications for how its middleware and server software work together with Windows. Unless they have these specifications, rivals cannot develop products that stand a chance against Microsoft's offerings.

All this sounds quite reasonable and will restrain Microsoft somewhat. But the devil is in the details, and the settlement is peppered with exceptions. PC makers may hide Microsoft's middleware, but they are not allowed to remove the code that makes it easy to reactivate the software. And the agreement lets Microsoft do just that, under certain circumstances. Two weeks after users have first turned on their PCs, for instance, Windows may ask them whether they want to reconfigure their machine.

The requirement to publish programming interfaces and “communication protocols” also has limits. Microsoft can keep them secret for middleware which it does not distribute separately from Windows and is not trademarked. And the company will not have to disclose specifications to parties which, in its view, do not have a viable business—a potential problem for open-source software, the free programs that compete with Microsoft products.

The nine dissenting attorneys-general are also unhappy with the enforcement provisions. A three-member panel will oversee compliance. However, these three will not be lawyers, but software experts (the Justice Department and Microsoft will each select one member; together, those members will pick the third). They will not be allowed to inform the public about their work. Nor will they be able to impose fines for non-compliance. Instead, they can merely notify the department, which in turn may file another lawsuit.

The opposition of half the 18 states means that the trial is now entering uncharted territory. If all the states had gone along, the next step would have been a superficial court review under the Tunney act, which is supposed to ensure that antitrust settlements are not the result of political wheeling and dealing. In a hearing, the trial judge, Colleen Kollar-Kotelly, would have simply determined whether the agreement was in the “public interest”.

The judge has now decided to let the trial continue on two parallel tracks—a Tunney act review and proceedings to hear the arguments of those states that want tougher remedies. In the first track, supporters and critics of the settlement have 60 days to file their comments with the judge, after which the Justice Department has 30 days to respond. The dissenting states, for their part, have to file their suggested list of remedies by early December, with hearings planned for March.

It does not bode well for the states that their coalition broke apart over the settlement. More of them may yet endorse the deal if Microsoft makes minor adjustments. Much will depend on Judge Kollar-Kotelly. Whatever she does, she will proceed cautiously. Her predecessor, Thomas Penfield Jackson, was removed from the case for talking to the press. His predecessor, Stanley Sporkin, suffered the same fate after stubbornly refusing to approve the July 1994 settlement. Subsequent events, however, have shown that he was right: it was the deficiencies of that deal that led to the latest antitrust trial. Might history repeat itself yet again?

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Microsoft and the EU

The next battleground

Nov 8th 2001 | PARIS
From The Economist print edition

The European Commission has been quietly building its antitrust case

Get article background

JACK WELCH, the now-retired boss of General Electric, recently admitted that he seriously underestimated Mario Monti, Europe's competition commissioner, during the regulatory process for GE's proposed merger with Honeywell. To general disgust in America, that deal was blocked in July. Might Bill Gates and Steve Ballmer, the men who run Microsoft, be about to repeat Mr Welch's mistake?

They do not need permission for a merger. Rather, they must defend Microsoft against antitrust charges in Europe, just as they have done at home. And Europe's competition authority has been building a case that is proving hard for the software group to answer.

A lot is at stake. Under current European rules on monopolies and the abuse of dominant market positions, the European Commission has explicit power to levy fines and monitor an offender's subsequent behaviour. Its ability to order structural changes—a break-up, for instance—is merely implicit and has never been tested in law.

Confusingly, reform of the existing laws, which date back to the 1960s, is under way; and the latest revisions give the commission explicit powers to impose structural changes. The new rules, which may yet be diluted, will not come into force until 2003. Markets hate uncertainty, however. Even a remote chance that Microsoft could face structural penalties might become a drag on its share price.

The commission refuses to comment on the details of its case, saying only that it is legally and factually different from the American one. The battle was joined last year when the commission launched a probe into alleged discriminatory licensing practices for Microsoft's Windows operating system. In August 2000, the commission sent a so-called statement of objections to Microsoft, asking it to account for its behaviour in the market for server software.

At the end of August this year, the commission announced that it had extended its investigation to include illegal practices in the low-end server market, as well as the tying of Microsoft's Media Player to Windows. (The latter charge is reminiscent of the American complaint over the bundling of Microsoft's web browser with Windows.) Speculation then grew that Mr Monti was considering a massive fine of up to 10% of Microsoft's annual revenues, equivalent to $2.5 billion and the maximum he can levy. In a leaked confidential document, the commission reportedly said that Microsoft's business tactics had had a “chilling effect on innovation and competition”. The commission was also said to be livid that Microsoft itself had seemed to draft submissions that were supposedly from independent witnesses.

Might these leaks be a tactic by Microsoft or its allies, designed to drive another wedge between European and American competition authorities after they fell out over GE/Honeywell? The leaks were immediately denounced by Mr Monti, who pointed out that his probe is months away from a conclusion. The commission likes to think it has been eminently reasonable in its handling of the case. It has, for instance, given Microsoft a short extension to the normal deadline for replying to the statement of objections. Oral hearings are expected in late December and the commission's findings will be made public some time next year. There will probably be more rough tactics before then.

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Counterfeiting in Asia

Phonies galore

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From The Economist print edition

In Asia, the pirates usually win. Which means consumers lose

IN CHINA, Microsoft is launching the authentic version of Windows XP on November 9th, with a price tag of 1,498 yuan ($180). On the streets of Shanghai, meanwhile, XP has been selling for about 20 yuan for weeks. This is hardly shocking in a country in which roughly 95% of all software is pirated. But it explains why progress in fighting piracy tends to be measured by unusual yardsticks. Bill Gates was overjoyed on a recent visit to Shanghai when its mayor promised to clamp down—by ordering his own staff to stop buying fakes.

Asia is home to the world's three worst offenders in software piracy: China, Vietnam and Indonesia. Last year, Asia was the only part of the world where piracy rates rose, to an average of 51%. This robbed software firms of an estimated $4 billion in sales.

Lack of legislation is not the problem. China, for instance, passed new laws on intellectual property in July. These should bring it into line with standards set by the World Trade Organisation, which is to accept China as a member on November 10th. On paper, even Indonesia has the right laws. In September a court near Jakarta became the first ever to enforce the country's copyright laws by punishing a local computer dealer for pirating Microsoft products.

Generally speaking, though, laws are not enforced. The police often co-operate with counterfeiters. Judges, too, tend to be venal. There are sporadic “crackdowns”, but most are staged spectacles. In China, an anti-piracy propaganda film recently created some optimism, until it was discovered that most people were watching pirated copies of it.

Given that some 40% of “Procter & Gamble” shampoos and 60% of “Honda” motorbikes in China are anything but, it is hardly surprising that multinationals have led the outcry against piracy. But this obscures the reality that the biggest victims are locals, argues Huey Tan, a lawyer for Microsoft. Piracy means that Microsoft has less incentive to work on locally tailored versions of its programmes. It also nips indigenous software entrepreneurs in the bud.

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AOL Time Warner

Harry Potter and the synergy test

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Does the hype about Harry Potter vindicate the AOL/Time Warner merger?

Reuters

A bewitching brand

IS HE a sorcerer or a multi-million-dollar branded media property? Harry Potter, J.K. Rowling's boy wizard, whose first film is about to go on general release, boasts not only fictional magic powers. In the real world, he is the biggest test yet of claims made by AOL Time Warner, formed in a much-hyped merger at the start of 2001, that an integrated media conglomerate can conjure up spellbinding cross-promotion synergies.

AOL Time Warner does not own the publishing rights to the book. Nor does it own Ms Rowling, who reportedly earned £25m ($37m) last year. But it does own everything else to do with Harry Potter: the rights to the films (seven are planned) and all licensing and merchandising deals.

Thus the film—called “Harry Potter and the Philosopher's Stone” in Britain, but “Harry Potter and the Sorcerer's Stone” in metaphysics-averse America—has been made by Warner Brothers, AOL Time Warner's movie arm. The soundtrack has been recorded by Atlantic Records, a label from Warner Music Group. The film is on the cover of this week's *Entertainment Weekly*, and an advance review appeared in *Time* magazine, both from the group's publishing division. All the while, AOL websites have been promoting the film through games, competitions, sneak previews and advance bookings.

The case for the merger between AOL and Time Warner rested on a belief in this cross-promotional power. Harry Potter, argues Richard Parsons, AOL Time Warner's co-chief operating officer, is a prime example of an asset “driving synergy both ways”. He explains that “we use the different platforms to drive the movie, and the movie to drive business across the platforms.” So, in America, AOL.com has offered subscribers the chance to win tickets to an advance screening; while in Britain, AOL has attracted new subscribers with the promise of tickets.

Certainly, it looks as if “Harry Potter” will be a tearaway success. Many observers expect its box-office take in America alone to reach $250m-300m, putting it in the blockbuster category (see table). With six more films to come, “this will be the most successful franchise in the history of Warner Brothers,” argues Mr Parsons. “It will be right up there with the Star Wars franchise—or maybe even bigger.”

Moreover, AOL Time Warner is set to make handsome profits. Ever since David Heyman, a British producer, sent an early copy of the first Harry Potter book to a fellow British studio honcho in Los Angeles, who persuaded his colleagues at Warner Brothers to pay some $500,000 for the rights, the studio has been sitting on a goldmine. Most of the film's production costs have already been covered by merchandising deals, the biggest of which is with Coca-Cola. And the British cast of newcomers and established character actors come with a combined wage bill that would not even hire Tom Cruise.

Already, the studio's standing within AOL Time Warner has risen. The film division is the only bit of the group for which Morgan Stanley, an investment bank, has revised its estimates of 2001 revenues significantly upwards—to $8.9 billion, or 23% of the

total. Ms Rowling may have personally reined in the raw commercialisation of the brand: as Mr Parsons puts it coyly, “quite possibly, without her guidance we probably would have done different things.” Even so, the Potter franchise (including books) could bring in $1 billion.

The question remains whether such miraculous powers could still have been achieved if the two halves of AOL Time Warner had remained separate. No, reply its bosses: the heads of the various divisions, notorious for running their own fiefs in Time Warner days, would not think about “synergies” as much as they do when they are forced to sit together in a room every two weeks. Integration, they now argue, imposes creativity and encourages thinking in the group's interest.

Will Harry sink Titanic?

Top ten movies by worldwide box-office gross, $bn

	US	Total
Titanic (1997)	0.60	1.84
Star Wars: Episode 1 (1999)	0.43	0.92
Jurassic Park (1993)	0.36	0.92
Independence Day (1996)	0.31	0.81
Star Wars (1977)	0.46	0.80
The Lion King (1994)	0.31	0.77
E.T. (1982)	0.40	0.70
Forrest Gump (1994)	0.33	0.68
The Sixth Sense (1999)	0.29	0.66
Jurassic Park: The Lost World (1997)	0.23	0.61

Source: Worldwideboxoffice.com

Yet even now, AOL Time Warner cannot fully exploit Harry Potter by itself. It has a deal, for instance, with Amazon.com to promote such toys as the LEGO Hogwarts classroom or Quidditch boardgame. Other media groups will benefit from Harry Potter too: BSkyB, part-owned by Rupert Murdoch's NewsCorp, for example, has just extended a deal with Warner Brothers that should give it the British rights to show the films on pay-TV.

The best vindication of the AOL/Time Warner union is not cross-promotion as much as sheer muscle. With a classy property like Harry Potter, it would be hard not to conjure up success. But, at over twice the size of its nearest rival, Viacom, AOL Time Warner has massive clout. This gives it market leverage in any negotiation over the delivery of its brands down others' pipes, or others' down its own. Now that is power, if not of the magic sort.

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Auction houses

Not such a pretty picture

Nov 8th 2001
From The Economist print edition

Despite robust sales Christie's and Sotheby's have reasons to worry

Bidding up the guarantees

THIS week had long been anxiously awaited in the art-auction world. It saw the first big art sales since September 11th. And on November 8th, Alfred Taubman, a former chairman of Sotheby's, went on trial for alleged collusion with the other main auction house, Christie's, over price-fixing. The main witness against him is Diana D. Brooks, his one-time protégé and a former chief executive of Sotheby's.

Given the economic gloom, some had feared that this week's auctions would not do anything like as well as lower-profile sales in September and October. Yet the results were surprisingly good. On November 5th, Phillips, de Pury & Luxembourg, an auction house owned by Bernard Arnault's LVMH that hopes to dethrone the big two, successfully sold the much-coveted Smooke collection of 20th-century art. A day later, Christie's sold surrealist and modern art assembled by René Gaffé, a Belgian perfume mogul, for $73.3m, almost twice its estimated value. And Sotheby's also did well with 38 lots of modern and Impressionist art on November 7th.

Yet the auction houses should not feel too optimistic. If the past is any guide, the art market will react with a delay to declining stockmarkets and economies. In the immediate aftermath of the stockmarket crash in October 1987, Sotheby's and Christie's achieved record prices. The crisis hit the art world only at the start of the 1990s. Ian Kennedy, a dealer at Dickinson Roundell in New York, thinks there is usually a time lag of nine months to two years between the decline of the equity market and the decline of the art market.

Moreover, Christie's and Sotheby's have to rebuild their reputations, which have been tarnished by the price-fixing allegations and trial. Mr Taubman and Sir Anthony Tennant, a former chairman of Christie's, are alleged to have fixed charges to sellers to ease competition. Sir Anthony, who lives in Britain, has refused to appear in court in America. He cannot be extradited for price-fixing, which carries harsher penalties in America than in Europe. Ms Brooks has already pleaded guilty, claiming she acted on Mr Taubman's orders. If found guilty, he faces a prison sentence of up to three years.

Any weakening of Christie's and Sotheby's is good news for Phillips, which is keen to break their duopoly. Too keen, perhaps. So aggressive are its sales methods and so lavish its advertising that it has lost pots of money in its quest for market share. It is giving much higher guarantees to sellers than either Christie's or Sotheby's. In some cases its guarantees far exceed the auction's proceeds: for instance, the guarantee for the Smooke collection, which Phillips sold for $86m, is rumoured to have been $185m.

With Phillips's expansion strategy proving so costly, Mr Arnault might try to gain market share more cheaply by buying one of the big two. A deal with Christie's is hard to imagine, as it belongs to François Pinault, Mr Arnault's arch-rival in France. Sotheby's is different. It became a takeover target when Mr Taubman declared his intention to sell his 22.5% stake earlier this year. “The market is simply not big enough for three players,” says Mr Kennedy. Those who doubt this may think again when the downturn hits home.

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OPEC

Precarious perch

Nov 8th 2001
From The Economist print edition

Will oil prices collapse?

CARTELS are never easy to run, but things look like getting especially tricky for the Organisation of the Petroleum Exporting Countries (OPEC) in the coming weeks. Usually, the hardest part is maintaining internal cohesion: members cannot agree on a “reasonable” price for oil, and often cheat on their allocated quotas. Yet this time round OPEC appears extraordinarily disciplined, and a consensus is already emerging. At the OPEC meeting in Vienna on November 14th, its members are expected to cut production quotas by 1m to 1.5m barrels a day. Also, they have reduced their level of cheating in recent weeks.

Such signs usually prompt the market to respond with a strong rally in prices. This time, though, prices have remained soft. The basket of OPEC crudes (which the cartel has tried to keep in a range of $22-28 a barrel) has been trading below the bottom of the band for several weeks.

That points to a force mightier even than the putative price-fixers: the spectre of global recession. This week, another sign of the weakening world economy's impact came from America's Energy Information Administration. It expects demand for oil in America to be 300,000 barrels a day weaker in the current quarter than in the same period last year.

Yet there are several wild cards that could help to shore up prices. Even if the war does not spread beyond Afghanistan, oil supplies may be interrupted, for instance if terrorists targeted the supply routes for Middle Eastern crude oil. And the situation would become more precarious if the war were extended to Iraq. Even if America does not drop bombs there, Saddam Hussein could make trouble: a renewal of “smart sanctions” could prompt him to shut down oil exports suddenly.

The biggest wild card, though, is production outside OPEC. Three years ago, when prices had collapsed to around $10 a barrel, it was collusion with OPEC by two outsiders, Mexico and Norway, that turned things around. This time, however, non-OPEC producers (especially Russia) have—so far at least—refused to co-operate. Unless they do so, warns Hugo Chavez, Venezuela's president and an OPEC kingpin, the resultant price war could send oil prices collapsing to around $5 a barrel.

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Executive pay

Under water

Nov 8th 2001
From The Economist print edition

The downturn is making companies think anew about how to tie managers' compensation to performance

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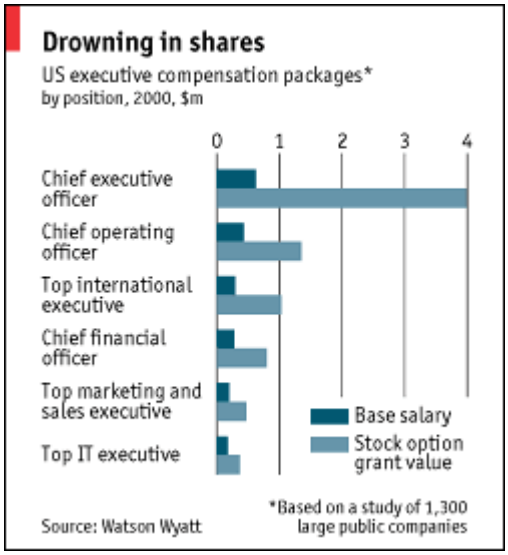
IT HAS been a remarkable experiment. Reward top executives according to the performance of their companies, and their interests will be more closely aligned with those of shareholders. So far has the experiment gone, particularly in America, that William M. Mercer, a pay consultancy, says that only 18% of the compensation of American chief executives (and 40% of that of British chief executives) came from fixed salaries last year. The rest came from variable sources such as stock options and other performance-related bonuses.

As corporate profits and share prices soared in the late 1990s, so did these rewards. With the fall in the stockmarket this year, however, many executives' stock options have become almost worthless. Ira Kay of Watson Wyatt, another pay consultancy, reckons that 90% of American quoted companies have some options "under water"—ie, the share price is below that at which the options were issued. At perhaps half of these companies, he reckons, all the options are under water.



At Harvard Business School, Brian Hall and Thomas Knox have done more detailed sums, studying a sample of top executives in large and small companies at the end of 2000. In some 40% of the companies they looked at, the top cadre of executives had near-valueless options.

This is not the only way in which performance-related pay is being whacked. Other measures on which executive bonuses are based, such as hitting budget targets, are doing badly. Richard Bednarek, a director of the Hay Group, a remuneration consultancy, says that for executive directors of FTSE 100 companies in Britain last year, the median bonus was 50% of basic salary. Some got well over 100%. These figures will be far lower this year.

Because most bonuses are at least partly related to such fuzzy things as "personal goals", some companies will (if they so wish) be able to massage them back up a bit. For many industries, though, that will be impossible. Wall Street bankers' bonuses are likely to be down by as much as 70% this year. Several airlines, including Delta, have already ditched bonuses for their top managers; so have Ford, Louisiana-Pacific and Siebel.

For many, this year's bonus is being allowed to keep the same salary. British Airways and CSFB are among a number of companies seeking to cut their executives' nominal salaries. Others, says Steven Hall of Pearl Meyer, a company that monitors top pay, are giving no salary increases but raising possible bonus pay-outs, so that high-fliers have a chance to earn a little more if things go well.

With options drowning and bonuses shredded, how will companies reward their stars? No longer will the likes of Enron, a troubled American energy company, be able to pay less than the industry average by relying heavily on options. "Cash is king," says Charles Wardell of Korn/Ferry International, a big headhunting firm. The star candidates he sees want a basic salary and a cash bonus. That is bad news for many companies: cash is a scarce commodity these days.

In Silicon Valley, though, people still ask for options—but far more of them than before. Amazon issued 26m employee stock options in the third quarter of this year. New options add to the overhang of allocated but unclaimed corporate equity, something that shareholders dislike. But they hate it more when companies “reprice” options (cancel them and reissue them at a lower, more favourable price). Any company that does this (few now do) must charge the replacement option, unlike the original one, against profits.

Pay consultants therefore sweat through the night to concoct ingenious ways to issue options that will motivate and retain talent without annoying shareholders. One device that minimises overhang, popular on America's west coast, is the “stub option”—a short-term option that “vests” (becomes available for an employee to exercise) within 12 months but expires after 13. Most options vest within four years and expire after ten.

On both sides of the Atlantic, the fast-growing fad in remuneration packages is “deferred bonuses”. A company will, typically, pay a cash bonus of 40% of salary up-front, and another 40% in shares (not, note, options) which become available only at some future date. “Restricted” stock of this sort has become an increasingly popular part of top executives' pay packages in America over the past couple of years. When the share price falls, options become worthless—but restricted stock is merely worth much less than before.

The longer-term question, however, is how to link pay better to sound performance. Some academics, such as Sendhil Mullainathan of MIT, have criticised stock-related pay on the ground that it rewards good luck as much as good performance. The rising stockmarket tide of the past few years did wonders for a host of leaky boats (and their top executives).

Now that options are so drenched, even some of the compensation consultants who once helped to design them wonder about their worth. “Options were given to too many people,” reflects Scott Olsen, who specialises in executive compensation at Towers Perrin. “Many sold as soon as they could. So they did not build a sense of ownership.”

Moreover, a relentless focus on some performance measures can skew corporate policy. In the latest issue of the *Harvard Business Review*, Michael Jensen, a professor at Harvard Business School, criticises the ties that exist in most companies between a manager's budget and his pay. These, he says, “distort decisions, and turn honest managers into schemers”. Mr Jensen argues that compensation should reward actual performance, independent of budget targets.

At root, though, badly designed rewards often reflect bad corporate governance. Board remuneration committees too often indulge in a form of high-level back-scratching. Nell Minow, an expert on corporate governance, says that decisions on pay are “best made by capable, expert, vitally involved directors, and until our boards meet that standard, companies and their shareholders will break out with bad pay the way that sufferers of poison ivy break out in an itchy rash.” The rash developed in the 1990s has not yet subsided; it has merely changed colour a bit.

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Face value

Adland's shrewd and lucky baron

Nov 8th 2001
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Can a successful empire builder also manage Havas Advertising through a downturn?

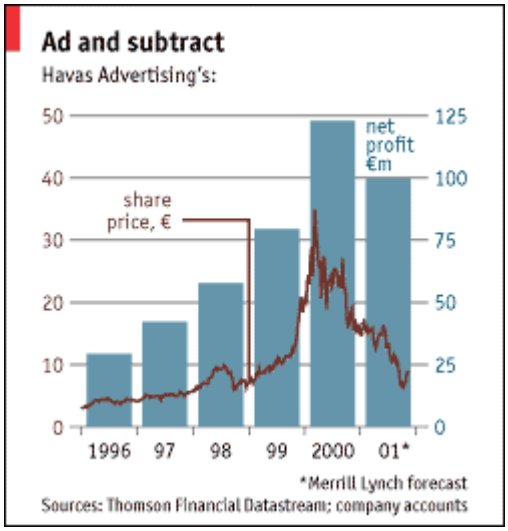
ALAIN DE POUZILHAC'S internationalist instincts dilute an otherwise thoroughly French persona. He is, after all, a baron who prefers not to flaunt his status in his working life, but who enjoys the trappings of fortune that have come with a successful business career. Since becoming boss of Havas Advertising in 1986 he has expanded the group from relative obscurity in France, via a string of deals, into the world's fifth-largest advertising, marketing and media conglomerate.

Along with an openness that is unusual in a top manager, he possesses another useful managerial quality: luck. On November 6th WPP, a rival British group, reluctantly conceded that its takeover bid for Tempus, a big media-buying agency, would go through. Havas had bid for Tempus in July, only to be trumped by WPP. Havas chose not to raise its bid following the events of September 11th, but then watched as WPP spent weeks trying to wriggle out of its obligation, under stockmarket rules, to go ahead and buy Tempus. With the advertising market crumbling, the £437m ($637m) price tag suddenly looked absurd. But all of WPP's efforts failed. A tactic that it had hoped might push Havas into paying too much for Tempus could not have backfired more completely.

Mr de Pouzilhac was away from the office when WPP finally gave up and agreed to buy Tempus, and staff insisted they would not disturb him. On learning of the news he may well have opened a celebratory bottle of the wine he produces on his own estate in southern France. In the early stages of the Tempus deal it appeared that he was being out-manoeuvred by Sir Martin Sorrell, WPP's wily boss. But he subsequently showed an acumen that has left his higher-profile rival looking clumsy. A more impulsive manager might have immediately counterbid and played into WPP's hands. Mr de Pouzilhac calmly pointed out that he had 60 days in which to decide, and that he intended to take his time. His patience proved crucial.

Even as Havas was opening the bidding for Tempus in July, it was becoming evident that the global advertising market was in trouble. Companies were pulling campaigns as their profits fell, and dotcom-related ads had disappeared. September's atrocities merely hastened and deepened a downturn that some analysts say is the worst in 50 years. According to Merrill Lynch, advertising business worth at least $8 billion, equivalent to the entire Italian market, disappeared between July and October.

By late September, when Havas had pulled back from Tempus, Mr de Pouzilhac was speaking openly of a recession in the industry. Last month Havas gave warning that its profits for this year will fall below expectations and that it is gloomy about the outlook for next year. Its shares, along with those of other big advertising groups, have tumbled (see chart). Far from being subdued, however, Mr de Pouzilhac is optimistic about Havas's ability to survive the downturn.



Reining in the federation

Mr de Pouzilhac claims to have foreseen several profound changes in the way the advertising industry works. Harder economic times, as well as forces such as the euro, are making clients more demanding and more conscious of price differences across markets. Havas plans to respond by forging closer relationships with its clients. During the firm's acquisition spree in the late 1990s, it bought dozens of companies on the basis that they could help it to offer an integrated service that combines everything from advertising and marketing services to corporate communications and human-resources management. The group has been constructed as a federation of largely autonomous divisions. One of Mr de Pouzilhac's recent strategies has been to centralise operations in the hope of boosting efficiency.

A second strategy is to turn otherwise painful trends to Havas's advantage. Mr de Pouzilhac welcomes the imminent arrival of the euro as a physical currency, on January 1st, but he also acknowledges that the presence of notes and coins will increase pricing pressure. However, the euro also brings opportunity. Around one-quarter of the world's advertising market will be unified by the single currency, a development Mr de Pouzilhac thinks will bring new business as big companies create pan-European brands and campaigns. He predicts a surge of advertising connected to the euro and to consumers' new-found ability to compare prices across borders. If nothing else, companies will have to reassure consumers through advertising that euro prices are not higher than previous local-currency prices.

Moreover, the euro will allow a new degree of internal price transparency, something managers can harness to protect profit margins. Havas is a pioneer of internal benchmarking by using the single currency to measure the relative performance of its businesses around Europe. Such measures will be used to direct work wherever it can be done most efficiently. “It takes a bit of time to make meaningful comparisons, but we can deploy our resources to the best market,” says Mr de Pouzilhac. His holy grail is the creation of a truly flexible operating structure for Havas in Europe, thus gaining an advantage over rivals.

But the true test of the downturn will be whether groups such as Havas can persuade their customers to give them more, and more varied, work in return for lower advertising prices. Traditional advertising, largely local in scope, is increasingly being sidelined as companies look for bundled regional or even global services. That implies the formation of closer relationships with multinational clients if it is to sustain profit margins. If Mr de Pouzilhac can keep Havas at the forefront of that development, he will deserve a reputation as one of his industry's shrewdest managers in bad times as well as good. But that may prove too big a challenge, even for a lucky baron.

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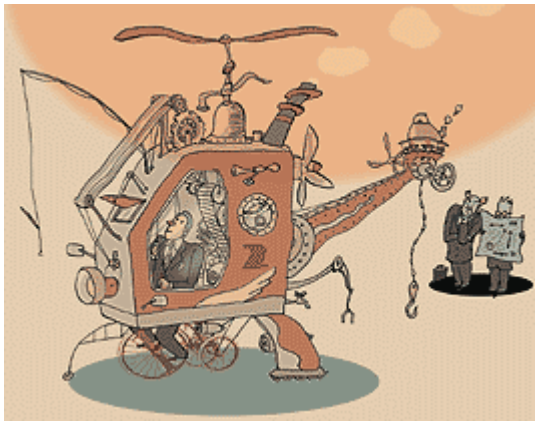
About sponsorship

Banking supervision

The Basel perplex

Nov 8th 2001
From The Economist print edition

New bank rules get more complex and unwieldy by the day



THE arcane world of banking supervision is not usually the talk of German chancellors on tours of Asia. Gerhard Schröder made an exception recently when he threatened that Germany would veto any new European directive based on the latest proposals from the Basel committee of big-country bank supervisors. In its present form, said Mr Schröder in Bangalore, Basel 2 (as the proposals are known) is “unacceptable to Germany”.

Basel 2 attempts to formulate more precisely than before the levels of “regulatory” capital that banks must hold as a cushion against the credit and other risks that they run. After more than three years of talks, the Basel boffins have developed rules which are still not acceptable to commercial banks. That is strange, since they are supposed to mirror the way the world's most sophisticated banks themselves calculate their risks. The whole exercise has shades of Heath Robinson about it.

The banks are up in arms, this week bearding the Basel committee for its latest draft rules, which get ever more complicated and prescriptive. By the time they are implemented, in 2005 at the earliest, the rules look likely to burden banks with extra costs (ie, through the need to run parallel reporting systems) and perverse incentives to “game” the system. Basel 2 could thus aggravate the very thing it set out to correct, a distortion of financial markets.

Germany's grouse has to do with the *Mittelstand*, the 3m small and medium-sized companies that are the economy's backbone. The Basel 2 formulae for credit risk are based on credit ratings applied to company debt, either by rating agencies or internally by banks themselves. But few smaller companies are rated in this way. Moreover, German companies are more than usually dependent on medium-term bank loans, and the longer the loan the more it is penalised under the proposals.

The Germans—but also the Italians and the Japanese—fear that their medium-sized companies will lose under the new capital regime. Many of the 2,800 German banks are not equipped to rate the companies to which they lend: equipping them would drive up the cost of lending. German bank associations plan to help by pooling credit data for their members. But Mr Schröder's advice to banks last week was that they should not be overhasty in applying the new Basel principles ahead of time.

Already the committee is working on a fix. On November 5th it posted a clutch of new suggestions on its website that included new risk weightings for smaller companies, and proposals that physical collateral, receivables and even leased assets be used to lessen a particular company's credit charge. These were interim ideas, it said, which needed to be tested and even revised.

All well and good. But the Basel committee is getting into knots trying to address every objection as it arises. Each time, it seems, the committee adds another layer of complexity for banks and their supervisors to master. Most recently, after strident objections by banks, there was the shifting of the “w-factor” (the possibly unquantifiable residual risk in a credit derivative) from one supervisory category to another, and also the setting of arbitrary minimum risk weights for unrated securitised assets. The figure for operational risk (non-market risks such as the loss of data, a rogue trader or the destruction of a bank's headquarters) has been slashed, after objections from banks.

The November 5th pabulum came in response to a “quantitative impact study” (a live study of how the

proposed capital charges would affect a sample of 138 banks in 25 countries). The Basel committee has always said that the scale of charges needs to be properly calibrated. In fact, it gave itself an extra year to get the calibration right. It has invited some banks to take part in a fresh impact study using its latest proposed adjustments.

The results should help the Basel committee to tweak its formulae to get results. Its declared goal is not to increase or decrease the overall capital charge imposed on the banking system, merely to allocate it more efficiently.

But some regulators are worried that the more risk-sensitive the regime is, the more reluctant banks will be to lend in a downturn, aggravating economic cycles. There are attempts to fix this too. For example, Spain allows its banks to make a provision at the inception of a loan—putting money aside for a rainy day. Some countries need to fix their accounting regimes before they can follow suit.

Regulators appear stoically optimistic that all these fixes will work, and that a credible new framework will be established—not without flaws, perhaps, but better than what exists today. The timetable may slip, but the plan is to produce a final draft framework early next year, allowing consultation until the end of March, which should result in a firm set of rules by the end of 2002. That, in theory, still allows time for the European Union to draft and finalise a matching directive on capital adequacy for banks and financial firms, to be in force by January 2005.

With Basel 2, bank supervisors are trying to do three main things. They want to devise formulae that bring capital charges closer to the banks' own measures of risk. They want to establish continuous review of banks' management, and especially of their risk management, as a factor in adjusting the capital charge. And they want to create incentives for greater public disclosure of banks' risk exposures. This is an attempt to let markets take on more of a supervisory role. Yet, in reality, the supervisors are becoming micro-managers.

A member of the Basel committee insists that most of the world's 36,000 banks will be governed by a regime no more complex than Basel 1, in force today. The more sophisticated financial groups that aspire to a so-called “advanced” approach will be treated differently. “We'll be crawling all over them initially,” says the supervisor, “because ultimately we're giving them more freedom.”

All the same, in between the lowest and the highest, thousands of banks will be graduating from a standardised to a more sophisticated approach, with heavy demands on supervisors' time. Only America and Britain already have a culture of continuous review by supervisors. Most other regimes are either less sophisticated, or they are hamstrung by non-adjustable capital charges that are set at a minimum by law.

Then there is the Brussels hurdle. Whatever the Basel committee decides works for banks must be applied in the European Union to all investment firms, including broker-dealers and asset managers. The scope is huge for further descent into mind-boggling detail. Supervisors and financial firms may well end up thanking Mr Schröder if he vetoed the lot.

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About sponsorship

Argentina

Willing suspension

Nov 8th 2001 | BUENOS AIRES AND WASHINGTON, DC
From The Economist print edition

A default, by any other name

AP

So much worthless paper

IT IS entirely voluntary, you understand. The holders of Argentina's $95 billion of government bonds are being asked to swap paper paying 11-12% (and well over 25% on the secondary market) for stuff yielding just 7%. The sweetener: you might actually be paid the interest.

Because a gun has, in effect, been put to investors' heads, two credit-rating agencies, Fitch and Standard & Poor's, say that if the debt swap proposed by President Fernando de la Rua and his economy minister, Domingo Cavallo, goes ahead, it would constitute a “distressed exchange” and, in consequence, a default. That may have grim consequences for Argentina. Many overseas investment institutions are bound by their rules to dump assets deemed to be in default. Support from the G7 countries is jeopardised. Argentina's programme with the International Monetary Fund (which arranged $40 billion last December and another $8 billion this summer) would be torn up. In sum, says Jose Luis Espert, a Buenos Aires economist, Argentina “ends up as a financial leper”.

The government's position is desperate. In the country's fourth successive year of recession, the economy is now shrinking fast, thanks not least to the peso's iron tie, at parity, to the dollar. The government, whose supporters suffered a heavy defeat in mid-term elections last month, badly wants to stimulate the economy by providing breaks and handouts—all, it claims, without widening the budget deficit by much. Previous measures have not worked, but then, the government reasons, it has not before asked foreign creditors to pay for them. It aims to cut its interest bill by two-fifths, or at least $4 billion a year. This month alone it has to find $2 billion for interest payments—the immediate cause of its distress.

On November 6th, the government took its case to those local institutions—domestic pension funds and the like—that own something under half of the total debt. They have little choice. The government has strong-armed them in the past to buy Argentina's bonds; an outright default would now bankrupt many. The latest measures include a change to local accounting rules so that bonds have to be booked at (depressed) market prices. At the same time, the government is giving local investors the chance to swap bonds for loans, which carry lower interest rates but can be booked at full value. Maturities are to be lengthened too.

Foreign investors will be much harder to deal with. If the offer really is voluntary, why the “guaranteed” interest payments, to be secured (how, exactly?) against future tax revenues? Wasn't that where payments were supposed to come from anyway? The plain meaning is: take our new paper or face default on the old.

Some sort of IMF guarantee might help to win foreigners' agreement. But that idea is deeply unpopular in most quarters of the Fund. For a start, trust in Mr Cavallo is at a new low. And, after putting together $48 billion for Argentina in the past year, to no avail, the Fund has egg on its face. It does not, for now, intend to accelerate the December disbursement of $1.2 billion due under the current programme. It will want to lie low, at least until the G7, and America in particular, provide guidance.

George Bush's administration is said to have decided privately to send no more money. Still, Mr de la Rua is due in Washington this weekend to plead with President Bush. He hopes to take with him a much-needed fiscal pact with provincial governors. If Mr Bush is persuaded that Argentina must be bailed out,

some kind of backing (or “enhancements”) might be found for a debt deal. There is, for instance, the $3 billion the IMF pledged, vaguely, this summer towards a debt swap.

If this is indeed a default, it will be a long and messy one. Will debt write-downs, if Argentina agrees them with creditors, be big enough to banish concerns about the durability of the currency peg? Or will they merely postpone a devaluation? And what will it take to get the G7 back on board?

What is plain is that long before this phase of Argentina's saga is over, hard questions need to be asked about countries in trouble, and how to deal with them. Clearer rules are needed for how sovereign borrowers negotiate with creditors over debt rescheduling. At present, there are no conventions.

Clearer ideas are also needed about how to stop countries getting into trouble in the first place. Argentina certainly borrowed too much. Against that background, the IMF's difficulty was, it seems, not being able to call an end to an unsustainable programme. Even if Argentina's impending default does not prove contagious to other emerging markets, as was Russia's in August 1998, a global slowdown means there is no room for complacency now.

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About sponsorship

Productivity in Europe and America

Statistical illusions

Nov 8th 2001
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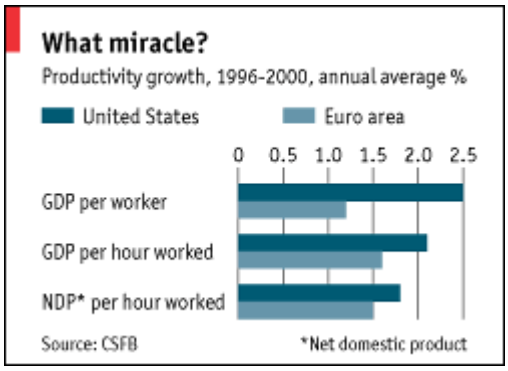
Europe's productivity growth has been almost as rapid as America's

IMMEDIATELY after September 11th the dollar weakened against the euro, and economists predicted that this would mark the end of investors' love affair with the greenback. Yet, despite a small drop this week after the Federal Reserve cut interest rates by half a point on November 6th (a move followed by the ECB's own half-point cut on November 8th), the dollar has returned close to its level before the attacks—so the euro is still 25% below its value at birth in January 1999. Why is the dollar so strong against the euro, despite the evidence that America is in recession?

A popular argument is that productivity growth is faster in America than in the euro area. America's productivity growth has dipped in the downturn, but it is argued that it will bounce back and even outpace growth in Europe for years to come. Figures this week showed that America's productivity growth has held up surprisingly well, rising by 1.8% in the year to the third quarter. America, so it is said, will remain the best place in which to invest—so the dollar will stay strong.

Yet in recent years productivity growth in America, if measured correctly, has not been much faster than in Europe. International comparisons are tricky because there are so many ways to measure productivity (see chart). The simplest is GDP per worker. In the five years to 2000, this rose by an annual average of 2.5% in America, and by just 1.2% in the euro area. But this is misleading, because a big increase in part-time working in Europe has depressed productivity growth. Better is GDP per hour worked: over the past five years this rose by 2.1% in America and by 1.6% in the euro area—a narrower gap.



To confuse matters more, the most popular productivity measure in America is output per hour in the non-farm business sector, which grew by an annual average of 2.5% over the past five years. Lazy economists compare this number with the 1.6% growth in total GDP per man-hour in Europe, exaggerating the productivity gap.

Another problem is that American statisticians count firms' spending on software as investment; in Europe it is treated as intermediate consumption. The surge in spending on software in recent years inflates American growth, but not Europe's.

One solution that partially gets around this problem is to use net domestic product (NDP) rather than the more common gross domestic product (GDP). NDP subtracts capital depreciation, and is considered a superior measure of economic progress. Normally, the two measures grow at the same pace, but in recent years a gap has opened up. That is because the average rate of depreciation of the capital stock has risen as investment has shifted from traditional machinery to shorter-lived assets such as computers and software.

Julian Callow, at CSFB, has calculated NDP per hour worked in America and the euro area. He finds that, over the past five years, America's productivity growth has only slightly outpaced that in the euro zone, at 1.8% and 1.5% respectively. However, over any period longer than the five years of America's boom, the euro area's productivity growth pulls well ahead. In the seven years to 2000, NDP per hour rose by an average of 1.8% in the euro area, but by only 1.4% in America.

These calculations also ignore the fact that American number-crunchers have done more than their European counterparts to take into account improvements in the quality of goods and services. Europe's

productivity growth is therefore probably understated relative to America's.

None of this is to deny that America's productivity growth has accelerated from its dismal rate in the two decades before 1995. But compared with Europe's productivity growth, it no longer looks so miraculous. Once investors wake up to this, their fondness for the dollar and disdain for the euro could quickly change.

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About sponsorship

Government use of derivatives

Italian fiddle?

Nov 8th 2001
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A government's financial wizardry unmasked

THE plot is familiar. A big bond-market player wants to dress up its balance sheet; wizard bankers conjure up a solution using smoke and mirrors; and regulators strain to keep up with the tricks of high finance. Are these the ingredients of the latest hedge-fund fiasco?

Actually, no: it is just the ordinary struggle of a European country desperate to join the euro, according to a report from the International Securities Market Association (ISMA). Its author, Gustavo Piga, a professor and former adviser to the Italian Treasury, claims that he has uncovered a strange transaction made by an unnamed European country—one that unmistakably resembles Italy.

The deal, an interest-rate and currency swap, dates from 1997, when EU countries were under pressure to meet the Maastricht treaty's budget-deficit targets of 3%. Most swaps require each party to pay one stream of cashflow and receive another—in, say, a different currency or interest rate. This deal, unusually, made use of a negative rate of interest, apparently to defer payments on ¥200 billion ($1.7 billion) worth of government debt from 1997 into 1998. It was a bid to reduce the country's 1997 budget deficit, and so help get it into the single currency, says the report.

Both Italy and the European Commission protest that nothing was amiss. They insist that the budget deficit, heroically cut from 6.7% in 1996 to 2.7% in 1997, fell because of tough budget choices, not financial window-dressing. Eurostat, the EU statistics agency, says it approved the swap, although there is a question about whether it fully understood the terms. Professor Piga does not allege wrongdoing. He argues only that loopholes in derivatives accounting make it hard to spot dodgy deals. Mysteriously, his report vanished from ISMA's website on the day it was posted.

Accusations that EU countries fiddled their books to meet the Maastricht criteria are nothing new. France and Germany, for example, raided their big telecoms firms to cut budget deficits. Fudged figures or no, the European single currency was always a political project; the Maastricht criteria made little economic sense.

Almost all EU countries use swaps to manage their public debt. This need not be a problem. Swaps can be useful tools, allowing, for example, a European country to borrow cheaply at Japan's low interest rates, while fully hedging its exchange-rate risk. Investors, governments and taxpayers all gain. But, without greater transparency, these strategies can turn into something riskier.

Better disclosure and accounting rules for governments' derivatives dealings are sorely needed. The EU's stability and growth pact sets stringent budget limits, yet these require accounts free of financial legerdemain. In its aid packages, the IMF sternly and properly demands the same of emerging-market economies, some of which will have carefully noted the ISMA story about Italy. And there is a danger of hidden liabilities and unseen counterparty risk. Sophisticated investors (and even the Bank of Italy, which lost a lot of money in Long-Term Capital Management) know this only too well.

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German mortgage banks

Portable property

Nov 8th 2001 | FRANKFURT
From The Economist print edition

More restructuring of Germany's financial industry

IN THE past few weeks, bad news has rained down from Germany's banks. The four biggest private-sector institutions have all announced job cuts by the thousand. Commerzbank, the smallest, is expected to announce a loss for the third quarter. Somebody at Deutsche Bank, the biggest, spoilt decent results last week by leaking them to Reuters. So a bedraggled cheer went up on November 6th when Deutsche, Commerzbank and Dresdner Bank, their Frankfurt neighbour, announced the long-awaited fusion of their mortgage subsidiaries. Last year Dresdner endured fruitless merger talks with each of the other two before being bought by Allianz, a Munich insurer. At last the Frankfurters look like pulling off a merger of their own.

The new bank, Eurohypo (also the name of Deutsche's mortgage arm) will be Germany's biggest mortgage bank. It will also be easily the top issuer of *Pfandbriefe*—bonds backed by mortgages or loans to the public sector, which only mortgage banks, among private institutions, may issue.

Yet Eurohypo's re-creation is only the latest upheaval in this corner of German banking. Already this year, HVB (formerly HypoVereinsbank), Germany's second-biggest bank, has tidied three of its five mortgage banks into a single house. The current leading issuer of *Pfandbriefe*, Allgemeine HypothekenBank Rheinboden, was the result of a merger completed in the summer. Yet another mortgage bank, DePfa, plans to split itself into a property lender and a public-sector specialist.

The Frankfurt three reckon that their merger, due to be completed next year, will cut costs by *euro*120m ($108m) a year from 2004. About 800 jobs, or one-third of the combined workforce, will go. However, they are creating this leaner, bigger bank not to attack the mortgage and public-sector lending market afresh, but to retreat from it. The spoils there are thin. Lending to the state is low risk; ditto for much of the mortgage market, at least at the retail end, where fierce competition also keeps margins thin. At the same time, property lending can be a mug's game. Provisions against eastern German property loans cost Dresdner *euro*500m last year.

The deal ought to allow the banks to cut the weight of property and public-sector loans in their balance sheets. Last year, such loans accounted for 10% of Deutsche's (unweighted) assets and 20% of Dresdner's and Commerzbank's. The banks should then be able to put aside less core capital to back such assets. At the outset, Deutsche and Commerzbank will each have a bit less than 35% of Eurohypo, and Dresdner a shade under 30% (there will be a small free float). Deutsche, for one, says that it would like to reduce its stake below 20%, allowing Eurohypo's figures to be removed from its accounts altogether.

Fine for the parents, but none of this sounds too promising for the new mortgage bank. Although the merger will cut costs and create scale, margins will remain thin. And analysts worry that, as its parents become more distant, it will no longer enjoy their guaranteed distribution channels. Eurohypo's answer is to look for higher-margin business. It wants to lend more outside cut-throat Germany, and to concentrate on corporate property lending. Besides the three mortgage banks, Eurohypo will inherit some investment-banking operations, specialising in property, from its parents.

Not surprisingly, others have thought of this too. HVB, for example, hopes that its property subsidiary will make 40% of its loans outside Germany within four years. Interesting times ahead, then, for Eurohypo. And a step towards more profitable ones, perhaps, for the Frankfurt three.

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About sponsorship

Deposit insurance in Japan

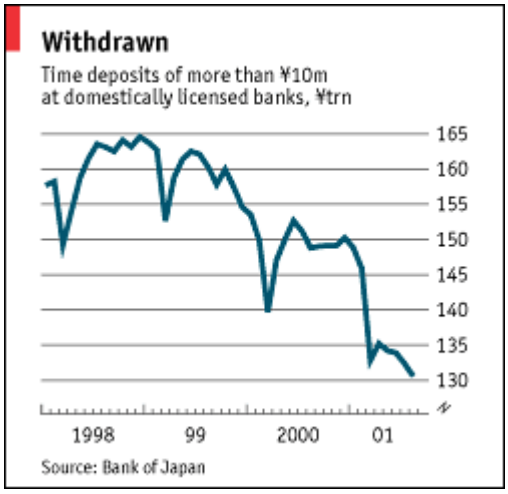
Net effect

Nov 8th 2001 | TOKYO
From The Economist print edition

Depositors lack faith in the banks

THE debate in Japan over whether the government should lift its blanket protection of bank deposits next April is heating up. Conservatives within the ruling Liberal Democratic Party want to keep the safety-net in place for another year or so, while a sick economy and a rotten banking system are sorted out. Junichiro Koizumi, the prime minister, insists that deposit-insurance reform, already postponed for two years, should go ahead as planned. He seems to fear further damage to Japan's credibility. Hakuo Yanagisawa, in charge of financial reform, also wants the net removed; officially, he believes that the banks are perfectly sound.

It is by no means clear that the safety-net will go. Still, some depositors are taking no chances. If the reform goes ahead, deposit insurance for savings accounts will be capped at ¥10m ($83,000). Not surprisingly, time deposits, especially those bigger than ¥10m, have steadily declined over the past year (see chart); liquid deposits, such as current accounts, which will be protected for an extra year, have surged.



Local governments, which lodge large sums of public money at banks, are particularly worried. Last month, Tokyo's metropolitan government set up a committee that includes a bank analyst, an economics professor and an analyst from a rating agency to set up guidelines on how to manage its money, most of which is placed in deposits at 20 banks. These, as well as another 200 or so banks that accept tax payments on its behalf, are to be reviewed ahead of the April deadline. The Kyoto municipality says it may buy more government bonds rather than keep the bulk of its money in banks. Hiroshima has the same idea—although it admits that its greatest worry about money is that it has less of it, thanks to recent falls in tax revenues. Other townships are besieged by securities salesmen smelling opportunity.

In the corporate world, Seiyu, a large supermarket chain, transferred deposits of its sales proceeds from small banks to big city banks last year. Kirin Brewery and Omron, a high-tech company, are reviewing the credit risk of their banks and may withdraw from those that fail to meet new standards. Rotary Yoneyama Memorial, a charity that provides scholarships for overseas students coming to Japan, has been moving money into securities whenever one of its time deposits matures.

Many individuals are spreading their money across different banks to limit their exposure. Others are simply consolidating their accounts in banks they consider either healthy, or at least “too big to fail”. In desperation, a bunch of credit unions in northern Japan are now offering big depositors a new service that distributes funds among them to keep accounts at less than ¥10m. Even so, healthier ones such as Jonan Shinkin Bank, a savvy credit union that once offered sacks of rice to new depositors, have managed to buck the national trend. Jonan's savings accounts rose by ¥110 billion, or 6%, over the past year. Half the money, it says, has come from worried depositors, especially those with accounts at city banks.

But maybe depositors should not worry. Although the government is likely to go ahead with deposit-insurance reform, it can, in an emergency, find new ways to protect depositors—for instance, by temporarily nationalising banks.

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China's economy

Celebration, and concern

Nov 8th 2001 | BEIJING
From The Economist print edition

Tough times, even as China prepares to join the WTO

CHINA'S state broadcaster won't break audience records with its four hours of live television planned for November 10th, from the World Trade Organisation meeting in Doha, Qatar. It will bring news of the vote on China's accession to the WTO, after 15 years of trying. The outcome is not in doubt. Yet WTO membership will bring little short-term cheer to ordinary Chinese, as the country's leaders cope with the impact of the world's economic slowdown as well as economic problems at home. Nor will this week's talk of a free-trade area with ASEAN, with action on it still a long way off.

Reuters

Where will the WTO train take them?

Yet China's economy still seems, on the face of it, to be relatively buoyant. Officials say GDP growth will be at least 7% this year—down from last year's 8%, but still way ahead of China's Asian neighbours, not to mention rich western economies. But the GDP figures are certainly inflated. And they mask some problems that will not be helped, at least in the short term, by membership of the WTO.

Imminent membership has borne unequivocal fruit in one area: an upsurge in foreign investment. In the first nine months of the year, “contracted” foreign direct investment in China rose by more than 30%, to $49 billion, compared with a year earlier. “Utilised” foreign investment reached $32 billion, up by over one-fifth. China may not be the “safe haven” for foreign investment that some optimistic officials believed after September 11th. But neither is there any obvious sign of waning investor enthusiasm since then.

All the same, much of this investment is going into an export sector that has been badly hit by the worldwide slump. In the first three quarters of 2000, exports grew by 33%; this year they grew by only 7%. Officials expect worse. The prime minister, Zhu Rongji, said last month that the impact of the “increasingly grim” global economy on China's foreign trade “must not be underestimated”.

The impact of falling export growth on China's GDP may not be dramatic. Generally, over nine-tenths of China's growth in GDP is attributable to domestic demand: China's is a continental economy, not an export-driven one. Still, since 1998, domestic demand has been propped up by ever greater amounts of government spending on infrastructure and the like, financed by bond issues. The government has also cut interest rates, increased wages for government workers and extended holidays to get people back in the shops.

There are drawbacks—notably, diverting investment from the more efficient non-state sector, and increasing the government's debt burden, perhaps unsustainably. In the first three quarters of the year, state investment in fixed assets rose by 18.2%, while private-sector investment rose by less than 8%. Meanwhile, many urban consumers are too worried about the impact of economic reforms—some prompted by WTO entry—to open their wallets wide. Farmers are struggling even more, and will be hurt by freer farm trade.

In the longer term, the potential benefits of WTO entry are clearer. If China carries out its commitments, it will force more inefficient state-owned enterprises to adapt to market competition or close down. It will encourage efforts to reform China's banking system, which is insolvent by any sane measure. It will put private enterprise on a more equal footing with the state sector. Entrepreneurs are currently held back by discriminatory regulations and a shortage of capital.

All these changes mean painful adjustment. And even 7% growth is not enough to absorb the swelling ranks of the unemployed. Despite the enthusiasm of reformist officials such as Mr Zhu for the supposed rigours of WTO discipline, many other officials will do their best to protect vested interests and slow the pace of reform. If China's economy slows to the extent that social stability is badly threatened, even Mr Zhu's ardour will cool.

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Economics focus

Home truths

Nov 8th 2001
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The "wealth effect" may be stronger in housing markets than in stockmarkets

ONE of the economic mysteries of the past two years has been the apparent weakness of the wealth effect on consumption, notably in America. Share prices have tumbled during that period, making the average American considerably poorer. Yet consumer spending, which many economists had thought to be strongly correlated with changes in wealth, continued to grow at a decent lick. This is one of the main reasons why the American economy had managed, at least until recently, to avoid slipping into recession.

Economists have come up with several possible explanations for the wealth effect that wasn't. Some argue that the wealth effect from stockmarkets is small, because most shares—and thus most losses on shares—are concentrated in the hands of the filthy rich, whose consumption is inelastic, ie, relatively unaffected by wealth changes. Others suggest that the wealth effect works only gradually, so nobody should have expected its impact to be felt quite yet.

But another possibility has received less attention than it deserves. Although tumbling shares may have made Americans poorer, house prices have continued to rise, in many cases strongly, making them richer. It is possible that the two effects have cancelled each other out, or even that the wealth effect from housing has trumped its stockmarket counterpart—although that depends crucially on the relative size of each effect. About this, economists have long been maddeningly imprecise.

Hence the interest in a new study comparing the two wealth effects*. Its authors, Karl Case, John Quigley and Robert Shiller—who is best-known for his book, "Irrational Exuberance", which predicted the bursting of the equity bubble—have analysed new data on home values, both in America and abroad. Combining this with data on share prices, other incomes and consumption, they have had a stab at calculating wealth effects for both equities and property.

Intriguingly, other studies of American data have failed to identify a statistically significant wealth effect associated with housing. The authors of the new study suggest that this might be because past analyses used aggregate nationwide data, pulling together many local markets in which prices may be behaving quite differently. Ever since reliable records have been kept, America has never had a year in which house prices have fallen nationwide. Local markets, on the other hand, have often seen quite sharp declines in certain years.

The new study examines consumer behaviour at the state level in the period from 1982 to 1999. It found that the wealth effect from housing was both statistically significant and twice as large as the stockmarket effect. On average, a 10% rise in house prices resulted in a rise in consumption of roughly 0.6%, whereas a 10% increase in stockmarket wealth pushed consumption up by only 0.3%. And when the three economists examined data for 14 countries, including America, they found an even larger wealth effect from housing—increased consumption of roughly 1.3% from a 10% rise in housing wealth—with no discernible equity wealth effect at all.

Where the heart is

Why should the housing wealth effect be larger everywhere than it is for stockmarkets? Outside America, the value of shares relative to housing is generally smaller. Both in America and outside it, shares account for a small, and often non-existent, proportion of the average person's assets, which are typically dominated by his home. Thus changes in house prices directly affect far more people than do changes in share prices.

Moreover, although there are bull and bear markets in houses, prices tend to be less volatile than they are for shares, with more moderate peaks and troughs than the stockmarket. Thus a rise in house prices is more likely to be seen as a permanent gain in wealth by a home owner than is a rise in share prices. It is accordingly more likely to influence his spending decisions.

Changes in house prices may also be more to the fore in people's minds. People see their home every day, and often talk or think about what is happening to its value. Certainly, Americans a couple of years ago were obsessed by the value of their shares, and seemed to look them up online every five minutes. But that was rare in American history, and is even rarer abroad. These days it is only the masochistic American who ever clicks on his online portfolio.

On the other hand, Americans today are forever being reminded that the value of their house is rising. A constant stream of advertisements offers mortgage refinancing at cheaper rates (thanks to yet another interest-rate cut by Alan Greenspan) or to borrow against housing equity (a home's value less any outstanding mortgage). Cash extracted from housing in this way appears to have fuelled consumption directly during the past year, as other sources of income growth and wealth have fallen away.

This may have worrying implications in the long term. By cashing out their home equity now, many Americans may be spending what has been a vital cushion in old age for past generations. Today's home-equity borrowers will not be able to spend this particular nest-egg when they are older. That makes America's low savings rate a still greater cause for concern.

In the short run, the danger is that the wealth effect from housing may follow the equity wealth effect by turning negative. Mr Shiller called the top of the stockmarket in early 2000. Now he thinks that house prices will fall over the coming year in at least five big American cities: San Francisco, New York, Los Angeles, San Diego and Nashville. He continues to think that the stockmarket is overvalued, and will fall further. If both these wealth effects turn negative, the blow to consumption could be severe, and the current recession could be deeper than most economists now forecast. So here's to the consumer and his defiance, until now, of the economic theorists.

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*“Comparing wealth effects: the stockmarket versus the housing market”, by Karl Case, John Quigley and Robert Shiller. National Bureau of Economic Research, October 2001.

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Unmanned aircraft

Send in the drones

Nov 8th 2001
From The Economist print edition

DPL

The conflict in Afghanistan is a testing-ground for unmanned-aircraft technology

FLYING a Predator is much like flying any other aircraft. The pilot has a joystick and rudder pedals, and a full set of instruments. The aircraft takes off and lands on a normal runway, and is equipped with radar, infra-red sensors and video cameras, allowing the pilot to track vehicles and take pictures, even through clouds or at night. What distinguishes the Predator from other aircraft, however, is that the pilot is not on board, but seated in a control centre, many miles away.

Unmanned aircraft, officially known as “unmanned aerial vehicles” (UAVs), are still few in number, but the war in Afghanistan has emphasised their growing significance. America's military spends $1.2 billion a year on UAV research. It is not hard to see why. UAVs keep pilots out of danger, and cost less to operate than manned aircraft: in theory, a single pilot can even fly several planes at once. There is no need for pilots to fly expensive training missions to keep their skills honed, since they can use simulators instead. UAVs can also be smaller and more agile than piloted craft, executing manoeuvres that might injure or kill a human pilot.

A number of new UAV technologies are now being used in anger for the first time. Predators, which have previously been used solely for reconnaissance and to designate targets, are firing missiles. Another American UAV, the Global Hawk, is being deployed in Afghanistan, despite the fact that it has not completed testing, and has yet to be approved for mass production. The conflict in Afghanistan has thus provided a sudden and dramatic boost to UAVs' prospects—and there are even more exotic technologies in the pipeline.

The use of missile-firing Predators is particularly noteworthy. It was only in February that the first test-firing of a Hellfire air-to-surface missile from a Predator was carried out, at the Indian Springs base in Nevada. The aircraft in question had been fitted with a laser designator, which illuminates a target and enables a missile (usually launched from another aircraft) to home in. So it was a logical step to launch missiles from the Predator itself. During the tests three missiles were fired, all of which hit their targets.

After conducting the tests (and further tests with air-to-air missiles that are planned for January), the original idea was to phase in armed Predators over the next few years. That timetable has been compressed dramatically. Although the Pentagon has not officially confirmed the use of missile-firing Predators in Afghanistan, it seems that the first occurred in mid-October. Since then, Predators are said to have carried out dozens of strikes, with an impressive rate of accuracy.

John Warden, a former fighter pilot who was the architect of the Gulf war air campaign, says this is highly significant. He expects a rapid take-up of UAVs, and predicts that 90% of combat aircraft will be unmanned by 2025. A surge of UAV deployment in the next few years, he suggests, could even mean

that fewer manned aircraft, such as the Joint Strike Fighter, will be needed. UAVs already have influential backers: last year the chairman of the Senate Armed Services Committee proposed that a third of deep-strike aircraft should be unmanned by 2010.

Flying high

The Global Hawk aircraft is similarly cutting-edge. Officially, the aircraft is still being tested, and was due to enter active service next year. Four aircraft have been built so far, but construction of the fifth has been accelerated in recent weeks.

In contrast to the Predator, which typically flies at an altitude of 15,000 feet, the Global Hawk is a high-altitude aircraft capable of flying at 65,000 feet, beyond the reach of any ground-based weapon. It is operated from a computer workstation, rather than by traditional aircraft controls, and has an automatic landing system. Observers were particularly impressed when a Global Hawk flew from California to Australia in April and landed without human intervention. In preparation for deployment in Afghanistan, tests were recently carried out in which two Global Hawks were simultaneously controlled from one ground station. Each Global Hawk has infra-red and radar sensors, and a surveillance range of 100 miles. It can stay aloft for 35 hours. Allowing for a six-hour flight from Germany, this means that two or three aircraft can maintain continuous coverage of the war zone.

But sceptics say the benefits of UAVs have been overstated. Last week a Washington pressure group, the Project on Government Oversight, released a Pentagon report from last year setting out operational difficulties with the Predator. The air force says the problems in question (including communications glitches in poor weather and landing mishaps) have since been solved. “There were problems in the past, but they're fixed now,” says James Hoffman of the United States Air Force Air Command and Staff College in Alabama, who flew Predators in Kosovo.

The limitations of existing UAVs will, in any case, be addressed by new aircraft under development. The X-45A, a dedicated combat UAV, or UCAV, is about to make its first test flight. It has been designed to carry weapons from the off, rather than having them bolted on later. And the Pentagon has laid out an ambitious roadmap for UAV development over the next 25 years. It calls for UAVs capable of identifying individuals from miles away; fuel-cell-powered UAVs that will be almost silent; high-speed hypersonic UAVs; and long-endurance UAVs able to stay aloft for weeks at a time. Today's aircraft will look primitive in comparison.

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Satellite technology

Eye spy

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Commercial satellites have military uses, too

He who controls the shutter...

DURING the Gulf war, America gave its troops civilian global-positioning system (GPS) receivers so that they could work out where they were, because it did not have enough military-grade receivers. Once a restricted, military-grade technology, GPS had been commercialised, only to be co-opted back by the military when the need arose. The same thing is now happening with commercial satellite imaging.

Space Imaging, a company based in Denver, Colorado, operates the world's highest-resolution commercial imaging satellite. *Ikonos* provides near real-time imagery (it passes over a given spot every three days) with a resolution of 0.82 metres—meaning that the smallest feature it can distinguish is 0.82 metres across. By the standards of America's military satellites, which have been able to see features even smaller than this for years, this does not sound too impressive. But *Ikonos* images provide enough detail to count individual vehicles in convoys and to distinguish different types of aircraft, so they have appreciable military value. And, in theory, anybody can buy these images.

America's military has therefore resorted to an unusual tactic to control their distribution. For a cool $1.9m a month, the National Imagery and Mapping Agency (NIMA) has bought exclusive rights to all images collected over the current war zone in Afghanistan. The deal was struck in October, and this week it was extended until December. It is clear that the NIMA plans to continue extending its contract for the duration of the conflict.

This might seem odd, particularly because America, like other countries in which commercial satellite firms operate, has “shutter-control” legislation to prevent sensitive satellite images being made public during wartime. In France, for example, the defence ministry has banned the sale of images of the war zone taken by that country's constellation of SPOT satellites, which have a resolution of ten metres. (There is some evidence that Iraq bought SPOT images during its war with Iran.) But buying the rights to the *Ikonos* images, rather than invoking the shutter-control laws, has a number of advantages.

One is that the shutter-control legislation might not withstand a legal challenge under the American constitution's first amendment. In the past, says John Pike of GlobalSecurity, a think-tank, several American news organisations have threatened to challenge shutter control in the courts on the grounds that it contravenes freedom of speech. Another benefit of “chequebook shutter control” is that the images obtained from *Ikonos* (such as the one shown above) can be shared with allies, and with the public, without revealing the capabilities of America's military satellites. The use of *Ikonos* also allows military satellites to concentrate on areas where higher resolution is required.

Although NIMA may be neatly skirting around the first amendment, the position is less clear under international law. Ann Florini, of the Carnegie Endowment for International Peace, says that under a set of legal principles passed by the UN General Assembly in 1986, any country whose territory has been photographed or “sensed” has the right to obtain those images in a reasonable time and at a reasonable cost. When exclusive contracts are made, it is not possible for countries to find out if they have been sensed.

Early next year, a new satellite with 0.5-metre resolution will become operational. DigitalGlobe, the American company operating it, is also keen to sign a lucrative deal with the NIMA. So the notion that

commercial satellites would make image censorship unfeasible has not proved correct. High launch costs, and the fact that the biggest customers for high-resolution imagery are governments, are likely to sustain the cosy relationship between commercial satellite operators and the military. In any case, high-resolution images are not much use on their own. You need to know where to point the satellites, and how to interpret the results. Despite the rise of commercial imaging, a new era of transparency has yet to dawn.

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The Leonid meteors

Last chance to see?

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On November 18th and 19th, the skies should rain shooting stars

COMET Tempel-Tuttle is not one of the more remarkable objects in the sky. Every 33 years it is visible through telescopes as a faint smudge, as its orbit carries it past the sun and solar heat vaporises some of the frozen gases of which it is partly composed. Yet the comet travels with a train of attendants, and these can sometimes put on a very spectacular show indeed. This year, if those who study the comet have done their sums correctly, people living in East Asia, Australia and North America could be treated to just such a show: a meteor storm.

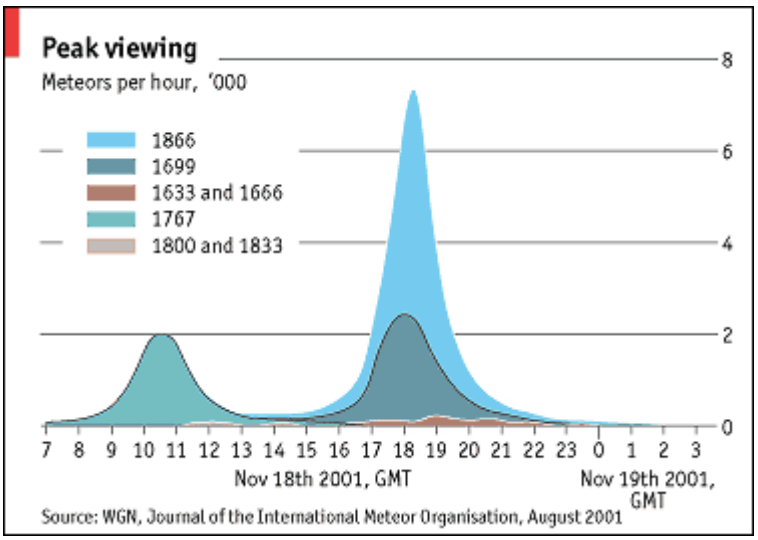
Every time the comet passes the sun, the evaporation that releases the gases which produce the smudge also liberates zillions of dust particles. These trail behind it like tiny courtiers. All comets behave in this way, but few have a second feature that distinguishes Tempel-Tuttle: that its orbit crosses that of the earth. And when that happens, the dust hits the earth's atmosphere at a speed of 72 kilometres a second. Friction with the air then heats and annihilates the dust in a burst of light, and the result is a shower of meteors.

Because of the direction from which the dust is coming, these meteors appear to radiate from a constellation called Leo. That is why they are called the Leonids. Since the comet has been around for a long time, dust is smeared all along its orbit, so there are a few Leonids every year. But when Tempel-Tuttle has passed by recently, there has been a lot of dust about. If the earth crosses one of these dusty lanes, the result is a meteor storm, in which shooting stars appear at a rate of several thousand per hour for a short while. Tempel-Tuttle last passed the sun in 1998, so storms are now quite likely. But predicting them was, until recently, a blacker art than forecasting next month's weather.

That seems now to have changed. In 1999 two pairs of researchers stuck their necks out. One consisted of David Asher, an astronomer at Armagh Observatory in Northern Ireland, and Robert McNaught of the Australian National University. The other was Esko Lyytinen and Tom Van Flandern, of Meta Research, an independent (and in the eyes of many astronomers wackily heterodox) institute in Maryland. Both teams predicted a storm that would peak at about one meteor per second, and be visible in longitudes that included western Russia and the Middle East.

They proved right. This year, they are predicting twin peaks. One, which should be visible from much of North America, is predicted to reach 2,000 meteors per hour—just over one every two seconds. The other, which should be seen from East Asia and the western two-thirds of Australia, might rise to as high as 15,000 per hour, according to the Asher-McNaught model, although the Lyytinen-Van Flandern version predicts a more conservative 7,500 per hour.

Messrs Asher, McNaught, Lyytinen and Van Flandern base their analysis on what the comet has done in previous centuries (see chart). Although it follows more or less the same orbit each time around the sun, the gravitational influence of Jupiter tends to interfere with its path when it disappears into the nether reaches of the solar system. This means that each new lot of dust is shed on a slightly different path.



By calculating the comet's orbit, the locations of these trails can be worked out, as can the earth's likelihood of cutting through one. According to these calculations, the earth will pass through several trails this time. When these collisions happen determines which part of the earth is facing Leo, and therefore who gets to see the show. North America will see the consequences of a trail shed when the comet passed by in 1767. Asia and Australia will be entertained by the results of the 1699 and 1866 passages, with minor contributions from 1666 and 1633.

Would-be observers should beware, though: meteor forecasting is still not an exact science. In 1998, the auguries suggested a good showing over East Asia. But it was 16 hours late, and visible over the Atlantic. The lessons of that error have been incorporated into subsequent forecasts, which have been issued with increasing confidence each year.

In any event, this will probably be the last opportunity to see a Leonid meteor storm clearly until Tempel-Tuttle comes back in another third of a century. That is because, although the calculations also predict a storm next year, on November 19th, the moon will be nearly full that night, and its light is likely to wash out the trails of all but the brightest fireballs. Those who miss this year's show (assuming it happens as predicted) may thus have a long wait before they get another opportunity to see a full-blown meteor storm in all its glory.

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Internet auctions

Doing eBay's bidding

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Online auctions may not be the perfect pricing mechanism after all

TO MOST punters, the thrill of an auction lies in its unpredictability. But auctions are meant to set prices efficiently, which ought to mean that, in an open auction, similar items fetch similar prices. This is especially true for goods with a published “book value”, such as old coins and stamps.

But an analysis of auctions on eBay, the Internet's most popular auction site, has found otherwise. Chuck Wood of the University of Notre Dame in Indiana and Robert Kauffman of the University of Minnesota used an Internet software agent (or “bot”) known as eDrill to gather data on thousands of eBay coin auctions from 1999 to 2001. At a conference in Miami this week they reported that the price of a coin sold on eBay depends on factors that have nothing to do with its book value.

The most surprising finding was that an item sold at a weekend commanded a price around 2% higher than the same item sold on a weekday. This effect persisted across all three years of the study and showed no sign of tapering away. The researchers suggest that bidders may have more time to consider their purchases at weekends, and may then decide to pay more.

A much larger mark-up was associated with items advertised with pictures. In 1999 a picture was worth a 5.7% premium; by this year, that had risen to 11.3%. Another variable gaining in strength is the effect of a seller's eBay “reputation score”. This signifies buyers' ratings of a seller's trustworthiness. In 2001 Dr Wood and Dr Kauffman found that high-rated sellers sold coins for 6.8% more than low-rated ones; in 1999, the difference was only 4.8%. Selling savvy, it seems, counts for more every year.

Price can also rise as a result of less savoury practices, such as shilling, when a seller covertly places so-called “shill” bids with the aim of driving up the sale price. Dr Wood and Dr Kauffman are testing software that tries to detect shill bidders, who tend to enter auctions early, raise their bids rapidly and exit without trying to win, while ignoring concurrent auctions of identical items.

Would eBay take advantage of these findings to catch shill bidders? Perhaps not: the higher the sale prices, the larger eBay's commission. But its 30m users would surely benefit from such sleuthing software. Perhaps Dr Wood and Dr Kauffman will auction a copy—at a weekend, and with a photo, of course.

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Religion and science

The perils of religious correctness

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People rightly call for mutual tolerance among religious believers, especially now. This ought not to mean immunity from debate

NOT long ago, an American philosopher, John Searle, ruefully observed that his colleagues seldom bothered to discuss the existence—or otherwise—of God: "It is considered in slightly bad taste to even raise the question. Matters of religion are like matters of sexual preference: they are not to be discussed in public."

Diderot and Bertrand Russell, two famous earlier non-believers, would also have been puzzled by what has happened to God at the hands of the western intelligentsia. Unbelief is widespread, yet few can be bothered to argue for their unbelief. This is partly because religion is now commonly treated in western societies as a lifestyle choice, a matter of taste, not reason. Yet can religious faith, with its many political and social consequences, be neatly ring-fenced in this way?

Religious toleration rightly requires that you must let your neighbour practise his religion without fear of persecution or reprisal. In the light of the West's awful history of religious warfare, if nothing else, that is a hard won and admirable principle. But there is also a prevalent attitude—call it religious correctness—with which genuine toleration is easily confused: a polite and well-meaning reluctance to engage believers in the sort of robust clash of ideas that might discomfit them.

A telling recent example of this new correctness is provided by Stephen Jay Gould's "Rocks of Ages". Mr Gould is a zoologist and geologist at Harvard—a practitioner, that is, of the two sciences that did the most to undermine traditional Christian belief. Mr Gould says that he is not a believer but that he has "great respect" for religion, and: "I believe, with all my heart, in a respectful, even loving concordat between...science and religion." His book is full of respect for religion, but nowhere is there any hint of what makes it worthy of such veneration. Is religion among the boons or ills of mankind? Does it do more harm than good? These are proper questions. But Mr Gould avoids them. He has proved himself an eager controversialist in several scientific fields, but here he seems unable to submit religion to the same rigorous questioning that he has applied elsewhere in his work. Instead, it seems, he opts for the polite and caring attitude.

Mr Gould calls his thesis the principle of non-overlapping magisteria. Science and religion operate, he says, in different but "equally vital" spheres, with no common ground. They ought to observe "respectful non-interference" in their dealings with one another. The alleged conflict between the two "exists only in people's minds and social practices". Science tries to document and explain facts, whereas religion operates in "the realm of human purposes, meanings and values—subjects that the factual domain of science might illuminate, but can never resolve."

This intellectual apartheid is less coherent than it may seem. By contrasting the religious realm of values with the realm of facts, Mr Gould exposes himself to a dilemma. Do all facts lie outside the realm of

Rocks of Ages
By Stephen Jay Gould

Ballantine (1999); 241 pages; $18.95.
Jonathan Cape; 222 pages; £14.99

Buy it at
Amazon.com
Amazon.co.uk

Reconciling Science and Religion: The Debate in Early-Twentieth-Century Britain
By Peter J. Bowler

University of Chicago Press; 479 pages; $40.
Distributed in Britain by John Wiley; £24

Buy it at
Amazon.com
Amazon.co.uk

An Intelligent Person's Guide to Atheism
By Daniel Harbour

Duckworth; 160 pages; $21.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

religion, or only facts about the natural world? If the former, then each religion is simply a set of moral teachings and attitudes which one accepts or rejects as a matter of taste. If the latter, and there is a mysterious class of “supernatural” facts that are allegedly outside the realm of science, then the age-old wars of science and religion are bound to break out once more.

The result of any attempt such as Mr Gould's to insulate religion from criticism is the evisceration of faith. Deprived of its right to assert facts, Christianity, for example, is reduced to the status of a fan club for the sayings of Jesus. Many atheists would be perfectly happy to join it.

Mr Gould's “separate-but-equal” solution is hardly original. These arguments are old—and abiding—ones, as Peter Bowler reminds us in his history of earlier attempts to reconcile modern science and contemporary religion. Focusing on early 20th-century Britain, he describes in scholarly detail different strategies for harmonising faith and knowledge: the sought-after alliance between liberal theologians in the Church of England and religious-minded scientists, and the rather different efforts of science-minded writers such as Julian Huxley and George Bernard Shaw to foster a modern, non-Christian religion. All the while, as Mr Bowler also reminds us, the conservative faithful on the one side and the atheists on the other—rationalists such as H.G. Wells or Marxist socialists—resisted calls for reconciliation of any kind.

Has anything changed? Perhaps more than appears. Despite its title, Daniel Harbour's “An Intelligent Person's Guide to Atheism” is not so much an explanation or history of unbelief as a powerful piece of advocacy for rejecting the religious attitude altogether. Mr Harbour does a strong job of defending atheism against some of the secondary charges that have been levelled against it—such as the complaint that atheistic political regimes have turned out to be worse than religious ones, or that atheists, if they follow through on what they believe, are bound to be amoral. But he also, and this is the core of his book, makes a positive case for the rational superiority of unbelief.

Starting from the sound premise that we know much less than we would like to about all sorts of things, Mr Harbour, an Oxford University graduate in mathematics and philosophy and now a student of linguistics at MIT, argues that we ought to aim for a world view that is a “Spartan meritocracy” rather than a “Baroque monarchy”. A Spartan approach, in his sense, endorses as small a set of assumptions or theories as possible; and a world view that is meritocratic is one in which beliefs are maintained only if they stand up to criticism and the test of evidence.

Judaism, Christianity and Islam are, by contrast, in his view, Baroque monarchies. Taken as beliefs, they are teeming nests of unwarranted assumptions that are not required to pass any tests of merit, but are maintained largely because they are found in scripture or accepted by tradition. Much of his reasoning will be familiar to the devotees of anti-clerical writers such as Voltaire or openly godless ones such as Russell, but the overall structure of his approach is new. As Mr Harbour has a great deal of ground to cover in a mere 143 pages, many of the arguments are compressed, and his style of writing is not polished. But, with its powerful and wide-ranging arguments against theism of all kinds, Mr Harbour's short book, nevertheless, makes what may be the most powerful case available to the widely held but strangely silent creed of atheism.

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Irish history

Love one another

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NORTHERN IRELAND has, at least, been fortunate in its journalists, many of whom strive, often in trying circumstances, to maintain the highest professional standards. Eamonn Mallie and David McKittrick, two of the province's most respected reporters, were granted access to the research undertaken for an RTE/BBC television series on the inside story of the peace process. The result is a mixture of interviews, observations and deep investigation. It sheds light on the clandestine contacts between the protagonists, on the political manoeuvrings and on the tortuous way in which Sinn Fein was brought into the peace process without the Ulster Unionists being driven out of it—or at least without most Unionists being driven out.

Smile through the punches

Endgame in Ireland
By Eamonn Mallie and David McKittrick

Hodder & Stoughton; £17.99

Buy it at
Amazon.co.uk

Ireland's Holy Wars: The Struggle for a Nation's Soul, 1500-2000
By MarcusTanner

Yale; 512 pages; £19.95 (To be published in America in March 2002)

Buy it at
Amazon.com
Amazon.co.uk

The book gets off to an uncertain start with the bombing of the Conservative Party conference in Brighton in 1984, which reminded this reader of the slogan, “If it bleeds, it leads”. It then settles down as the authors trace the role of personalities in the making of the peace process. One might object that they concentrate on this at the expense of the deeper forces compelling the warring parties towards compromise, or at least to contemplate compromise. But the authors also bring out the role of contingency in politics: Sinn Feiners and Unionists encountering each other, from Stormont Castle to English country houses, and gradually building up some kind of trust, however wary.

The role of the British government, and its underground contact (who went by the homely name of Fred), is traced. And, at last, proper credit is given to John Major, who showed the right mixture of steely determination and neat political footwork in pursuing a fundamental principle, a determination to bring Sinn Fein to accept democratic and constitutional means.

Messrs Mallie and McKittrick are selective in one key area, the decommissioning of terrorist arms. They refer only to a “certain linkage” between this act and Sinn Fein assuming office in government. But as long ago as December 1993 in the Dail, and then again in June 1994, the Irish foreign minister, Dick Spring, stated unequivocally that the key to Sinn Fein joining political discussions was a permanent cessation of violence, and that there would have to be verification of the handing over of arms. Other voices can be quoted making the same point. It is hard to believe that such experienced reporters as Messrs Mallie and McKittrick are unaware of this evidence. Rightly or wrongly, this matters to Unionists and cannot be downgraded to the status of a “certain linkage”.

Marcus Tanner, meanwhile, exchanges contingency and the role of personality for a historical survey of the role of religion, in particular, in the making of modern Ireland. He has used an impressive range of sources to show how Catholic, Protestant and Dissenter came to fear each other, and how the latter two became fused, though not entirely merged, in the common battle against the growing might of the Catholic hierarchy in the 19th century. His theme is at once comprehensive and selective; where religion is not to the fore, his discussion is brief. “Grattan's Parliament” of 1782, the (short-lived) apogee of the Protestant nation, for example, is passed over with hardly a mention.

But Mr Tanner is the kind of journalist who goes to see for himself, and his linking of the contemporary Irish scene to the topography of Irish history, with its churches, murals and working-class streets, is a

fine example of how to read the past. His description of the remarkable decline of Catholic Ireland over the past decade is matched only by his sympathetic, though critical, account of the toll that sectarian war in the north has taken on the cross-border Church of Ireland.

Both these books end on a note of optimism. They were written before the events in New York which may well contribute to the endgame in Ireland. But optimism must always be tempered with caution. Winston Churchill's lament that the implacable steeples of Fermanagh and Tyrone rose above the world deluge in 1919 is now a cliché; nevertheless, it is well to remember that they rose also above the deluge of 1945. Must they yet surface above that of September 11th 2001?

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New York chronicles

Shifting pages

Nov 8th 2001
From The Economist print edition

TOBY YOUNG is the most bumptious Englishman you are ever likely to meet, and any account of the five years he spent trying to make it as a magazine journalist in New York will be full of him vomiting drunkenly and offending people. His book should have been a bore, but it is surprisingly good.

How to Lose Friends and Alienate People
By Toby Young

Little, Brown; 344 pages; £9.99

Buy it at Amazon.co.uk

Mr Young—Tobias Smollett meets Dick Whittington—takes us into a world where fashionistas visit three different salons to cut, colour and blow-dry their hair and where the quantity of hot air published is directly linked to the amount of airbrush applied. In the new morality, no one will admit to being the sort of person who keeps an eye on the gap over your shoulder in case they miss someone more important than you, but celebrity magazines are big business and those who rise within them like to take their opportunities as they come.

Mr Young is honest about how compelling he found that milieu, and even more honest about what he found when he stepped into it. But honesty is not a good career move in celebrity journalism. What stops this book from being a self-pitying whinge is the extent to which Mr Young is prepared to humour himself, and his open-hearted quest for the love of Caroline, who cares little for nail polish and prefers the intelligent Mr Young to the smartass version.

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About sponsorship

New French fiction

Men of faction

Nov 8th 2001 | PARIS
From The Economist print edition

Historical fiction is à la mode

THREE of the books nominated for this year's Prix Goncourt highlight the possibilities and pitfalls of historical fiction. Like many of the novels published in France this year, they inhabit a curious no-man's-land between fiction and non-fiction. Do today's French novelists feel that philosophical debate, dramatised biography and historical sketches have a legitimacy which conventional novels lack?

Earlier this week, the Goncourt was awarded to Jean-Christophe Rufin, for “Rouge Brésil”. Mr Rufin, a founding member of Médecins Sans Frontières, explores the French colonial presence in 16th-century Brazil. His central characters are Just and Colombe, two children enlisted by the colonists to serve as translators. Just grows up to become a powerful figure in the colonial administration, while Colombe becomes increasingly sympathetic with its Indian victims. As he traces their diverging experiences, Mr Rufin fleshes out two conflicting visions of the relation between man and nature. At more than 500 pages, the novel feels over-long, and its themes rather too politically correct.

Jérôme Garcin's “C'était tous les jours tempête” is a fictionalised memoir of Hérault de Séchelles, one of the handful of liberal aristocrats who espoused the cause of the French Revolution—and died for it in the poisonous atmosphere of the Terror.

As he awaits execution, he writes to the one woman he ever truly loved. In his letters a clash of worlds comes alive. Aristocratic values and democratic principles, political abstractions and sexual freedom—these disparate elements collide in a coolly elegant epistolary style reminiscent of Laclos's “Les liaisons dangereuses”. Above all a man of ambition, be it ruthless or noble, Séchelles believes until the end that nothing matters but style. Through him, the tremendous emotional and intellectual charge of the times is superbly evoked. One wonders why so few French novels are set during the Revolution, and regrets that this should be so.

Taking on a little-known figure from the French Revolution is one thing; taking on Hitler, as Eric-Emmanuel Schmitt does in “La part de l'autre”, is quite another. The premise is simple. What if Hitler had been accepted into the academy of fine arts in Vienna? How would that have affected his psyche and, therefore, the course of history? Mr Schmitt proceeds to tell two parallel stories: one about a fictionalised Hitler, the other, which contains the best writing in the book, about the real-life figure.

This is not the first time that Mr Schmitt has tried to fill in the blanks left by orthodox versions of history. Here, though, the device seems forced. Caught up in Hitler's particular psychology, Mr Schmitt fails to engage satisfactorily with the question of the nature of evil. Only one character identifies the difference between “ordinary” evil and the evil of a fanatical dictator, capable of killing millions. Potentially interesting ideas—for instance that Hitler became an anti-Semite only out of political opportunism—are introduced tentatively, under the cover of novelistic licence.

All in all, this makes for a strange book, one which is by turns learned and playful, entertaining and unconvincing. In their willingness to substitute a form of re-creation for creation, the novels of Messrs Rufin, Garcin and Schmitt may be seen to exemplify something of a fashion in contemporary French fiction.

Rouge BrÃ©sil
By Jean-Christophe Rufin

Gallimard; 551 pages; FFr 137.75

Buy it at
Amazon.fr

C'Ã©tait tous les jours tempÃªte
By JÃ©rÃ´me Garcin

Gallimard; 164 pages; FFr 90

Buy it at
Amazon.fr

La part de l'autre
By Eric-Emmanuel Schmitt

Albin Michel; 492 pages; FFr 140

Buy it at
Amazon.fr

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Literary biography

No larger than life

Nov 8th 2001
From The Economist print edition

IN 1861 Gustave Flaubert threw a dinner party to celebrate the progress he was making on his novel, “Salammbô”. The menu, he promised, would include “human flesh, brain of bourgeois and tigress clitorises sautéed in rhinoceros butter”. This was perfectly in keeping with his dissolute, bourgeois-baiting public persona. George Sand, who met him in 1863, asked whether he really deserved this reputation. Far from it, he candidly replied. “I have dreamed much and done very little.”

Flaubert: A Life
By Geoffrey Wall

Faber and Faber; 432 pages; £25

Buy it at
Amazon.co.uk

Flaubert was born in 1821, the second son of a surgeon and professor of clinical medicine in Rouen. To satisfy his parents' upwardly mobile ambitions, he enrolled to read law in Paris. This was a disaster from the start. “The law”, he whined, “leaves me in a state of moral castration which is almost inconceivable.” After failing his second-year exams, bad health—some sort of “nervous” condition, compounded by epilepsy—led him to abandon his studies altogether.

Flaubert returned to the family's stately home at Croisset, a riverside village near Rouen, to recover. Soon he was struck down by further misfortune. In 1846, his father died; the death of his sister Caroline followed in less than a year. These events marked a turning point in Flaubert's life. Thereafter he would devote himself exclusively to literature. Well, almost exclusively. It was also at this time that he met Louise Colet. Their affair dragged on for years. Flaubert, though, was determined not to be tied down. The only woman who ever had a firm grip on him was his domineering mother, whom he called “my girl”.

Geoffrey Wall, a lecturer at the University of York and a translator of “Madame Bovary”, has little to say here about Flaubert's writing itself. Only his letters are quoted at any length. Mr Wall remains focused on the life; yet in doing so he manages to cast a good deal of light on the work. He notes, for instance, Flaubert's fondness for reading out loud. An obsessive stylist, he maintained that there is no such thing as a synonym, only *le mot juste*. Nothing pleased him more than declaiming his own exquisitely turned sentences until he was blue in the face. “The champion of impersonality needed a good pair of lungs, romantically *bellowing*, to bring the realist novel into the world.”

Mr Wall zooms in on Flaubert's health problems, which included epilepsy, boils and syphilis. Jules and Edmond de Goncourt encountered him in his 40s and dashed off a bitchy pen-portrait: “Very tall, very broad, large bulging eyes, swollen eyelids, heavy cheeks, untidy drooping moustache, battered complexion with red blotches.” (The toffee-nosed Goncourts, Mr Wall explains, saw Flaubert as a gauche, loud-mouthed provincial; Flaubert in turn gave them the nickname, *les bichons*: the lapdogs or little darlings.)

Mr Wall convincingly traces Flaubert's fascination with the physiological, the grotesque and the cruel back to his early exposure to the world of hospitals, operating theatres and anatomy classes. The biography ends with a wonderfully comic scene at Flaubert's funeral. Too wide to fit in the grave, the great man's coffin had to be left “stuck at an angle, headfirst, and only half way into the earth”. Mr Wall's relentlessly chatty style may annoy some readers. Otherwise, he has written an engaging and perceptive life of one of the defining figures of modern literature.

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About sponsorship

Bestselling non-fiction in America and Britain

What the world is reading

Nov 8th 2001
From The Economist print edition

Books on terrorism are selling well all over the world—but not in Britain

IN THE past few weeks a number of books on terrorism, Middle Eastern politics and Osama bin Laden have been rushed to publication. Meanwhile, readers wishing to learn more about the motives and masterminds behind the attacks have sought out books already available on the subject (a number of which were surveyed in *The Economist* on September 22nd).

The American non-fiction lists include no fewer than six titles relating to current events. Books on Afghanistan, terrorism and the Taliban also appear in bestseller lists in France, Germany and Italy. Yet in Britain, only “A Mad World, My Masters”, by a veteran BBC journalist, John Simpson, has any bearing on the international situation. War, it seems, cannot compete with the shiny, happy likes of Jamie, Robbie and Posh.

Bestsellers

	AMERICAN NON-FICTION (HARDBACK)	AMERICAN NON-FICTION (TRADE PAPERBACK)
1	**The No-Spin Zone** *by Bill O'Reilly* Latest collection from TV commentator	**Band of Brothers** *by Stephen E. Ambrose* Wartime horror and comradeship
2	**The Final Days** *by Barbara Olson* Leaving the White House	**Taliban** *by Ahmed Rashid* Political and historical survey of the movement
3	**How I Play Golf** *by Tiger Woods* A champion shares his secrets	**The Four Agreements** *by Miguel Ruiz* Personal freedom, the Toltec way
4	**Germs** *by Judith Miller, Stephen Engelberg and William Broad* Biological weapons, past, present and future	**Bin Laden: The Man Who Declared War on America** *by Yossef Bodansky* A terrorist and his network
5	**Jack** *by Jack Welch and John A. Byrne* From locker room to GE boardroom	**Personal History** *by Katharine Graham* Memoirs of a late, great newspaper publisher
6	**Back to the Table** *by Art Smith* Recipes of Oprah's personal chef	**Life Strategies** *by Philip C. McGraw* How to be a better person
7	**The Prayer of Jabez** *by Bruce H. Wilkinson* How to live a blessed life	**Paris to the Moon** *by Adam Gopnik* *New Yorker* correspondent in the city of light
8	**John Adams** *by David McCullough* Biography of America's second president	**Day of Terror: September 11, 2001** *by Barbara Shangle* Photographs of terrorist attacks on America
9	**Who Moved My Cheese?** *by Spencer Johnson* Million-selling self-help book	**From Beirut to Jerusalem** *by Thomas L. Friedman* Classic study of conflict in the Middle East
10	**Fire** *by Sebastian Junger* Dispatches from the world's hot spots	**Rich Dad, Poor Dad** *by Robert T. Kiyosaki* Personal finance advice

	BRITISH NON-FICTION (HARDBACK)	BRITISH NON-FICTION (PAPERBACK)
1	**Billy** *by Pamela Stephenson* Biography of Billy Connolly by his wife	**The Lost Boy** *by Dave Pelzer* Second volume of autobiography
2	**Happy Days With the Naked Chef** *by Jamie Oliver* Celebrity cook's recipes	**A Child Called "It"** *by Dave Pelzer* Coping with childhood abuse
3	**Guinness World Records 2002** *published by Guinness World Records Ltd* Remarkable facts and feats	**Highway Code 2001** *published by the Driving Standards Agency* Rules of the road
4	**Robbie Williams: Somebody, Someday** *by Robbie Williams and Mark McCrum* Pop star's memoirs	**Bad Blood** *by Lorna Sage* Life of a literary critic
5	**Learning to Fly** *by Victoria Beckham* Another pop star's memoirs	**A Mad World, My Masters** *by John Simpson* Adventures of a foreign correspondent
6	**Memoirs of an Unfit Mother** *by Anne Robinson* Quiz show dominatrix comes clean	**Down Under** *by Bill Bryson* Popular travel writer visits Australia
7	**The Blue Planet** *published by BBC Consumer Books* Wonders of the watery world	**Dr Atkins' New Diet Revolution** *by Robert C. Atkins* Diet plan
8	**Blessed** *by George Best* The ball versus the bottle	**Band of Brothers** *by Stephen E. Ambrose* Wartime horror and comradeship
9	**Frank Skinner: Autobiography** *by Frank Skinner* Funny man tells all	**McCarthy's Bar** *by Pete McCarthy* Never pass a pub with your name on it
10	**A History of Britain: The British Wars, 1603-1776** *bby Simon Schama* Second volume of popular history	**London: A Biography** *by Peter Ackroyd* History of a great city

Sources: *Publishers Weekly*; Whitaker BookTrack

Descriptions by *The Economist*

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About sponsorship

Vasily Mishin

Nov 8th 2001
From The Economist print edition

Vasily Mishin, the loser in the race to the moon, died on October 10th, aged 84

AP

IN THE race to place a man on the moon the Soviet Union at first seemed to have the advantage over the United States. In 1957 the Soviets had sent up the first successful satellite, called Sputnik. In a spectacular follow-up Yuri Gagarin became the first human in space. The Soviet leader Nikita Khrushchev sneered that American satellites were “like oranges” when compared with Soviet ones. It was Gagarin's flight, in April 1961, and the world's astonishment, that may have prompted John Kennedy a month later to announce “a great new American enterprise”, of landing a man on the moon and returning him safely to earth during the next ten years.

The Russians did not immediately respond to the challenge. Keeping up with the Americans in the arms race was already cripplingly expensive without adding to the bill by reaching for the moon. The two men running its space programme, Sergei Korolyov and his deputy Vasily Mishin, also had doubts that a successful moon landing could be achieved with the existing technology. Why not let the Americans make fools of themselves?

But in 1964 Khrushchev decided that Soviet prestige was at stake and the space scientists were told to get their moon ship ready. Vasily Mishin took command in 1966 after Korolyov died. The moon seemed temptingly within reach. An unmanned craft landed and sent back photographs and details of the soil. In Mr Mishin's most elegant coup a spacecraft circled the moon broadcasting the “Internationale”, delighting a meeting in Moscow of Communist Party high-ups who enthusiastically sang to the heavens, “Arise ye workers from your slumbers”.

Any American space workers that might have been slumbering were quickly reminded of the urgency of their task. Although the Russians had still not publicly said they were in a race with the United States—and never did say so—their purpose was clear. The Americans had another jolt in 1968 when the Russians sent a space ship to orbit the moon with turtles aboard, returning it and its living cargo safely to earth. Could it be that Mr Mishin's team was ahead?

When he was a hero

Vasily Mishin was born in 1917, the year of the revolution that brought the Communists to power. He seems to have taken no interest in the ideological struggles that sent many Russians to the gulag. Mathematics was his obsession. In the second world war he helped to design aircraft, and worked on the first Russian jet. He was made a Hero of Socialist Labour. After the war Mr Mishin was mastering the intricate calculations that guided the Soviet space rockets. In 1969 it seemed that both the Soviet Union and the United States were at last poised for the desired landing on the moon. Each had designed a “lander”, the shuttle that was to take an astronaut from the main spaceship to the moon's surface and back again. The American astronauts were ready and waiting.

So were the Russians, among them Alexei Leonov who was still bitter many years later about the failure to put him on the moon. A last-minute difficulty with its lander may have held up the Soviet effort. Mr Mishin said later that the United States, getting word of his problems, had generously offered the Russians a place aboard the Apollo spaceship. But Khrushchev said no, so the first moon landing was an all-American show, with Neil Armstrong and Buzz Aldrin the stars. The Russians tried to steal some American thunder by sending up an unmanned craft designed to land on the moon before Apollo, but something went wrong and it was lost.

Although Vasily Mishin was deeply disappointed at losing the race, he put aside nationalistic feelings and acknowledged as a scientist that the Americans had done something incredible: for the first time in its existence the human animal had set foot in another part of the solar system, and returned safely. “It pained me,” he said later, “but it was wonderful.” In “2001: A Space Odyssey” primitive man throws a bone in the air and, spanning a million years, it becomes a spaceship. Now it had really happened. The official Soviet reaction was begrudging. *Pravda* carried a short report of the landing. Its main story was of 25 years of Polish socialism. The Soviet Union was not trying to get to the moon, an official said, and the Americans had taken needless risks.

Mr Mishin wanted to keep his team together. He could still get to the moon, he said, and would do it better than the Americans. But the Soviet moon quest was over. Mr Mishin lost his job; but, as these were post-Stalin times, not his life. He was given a minor teaching post. The United States too abandoned the moon. The American lunar era lasted only a little over three years during which men landed on the moon on six occasions. No one has walked on the moon since December 1972. In retrospect the moon is seen as less a stepping stone to the stars than as the scene of a cold-war battle which cost the United States at least $25 billion and helped to push the Soviet Union into penury.

Many Russians remain aggrieved that they lost the space race after starting so well. Vasily Mishin the loser is a name they prefer to forget. The *St Petersburg Times* noted his death as the fifth item in its “In brief” column.

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Overview

Nov 8th 2001
From The Economist print edition

Dismal economic news in **America** prompted the Fed to lower interest rates by a half-point to 2.0%. This was its tenth cut this year, and it takes rates to their lowest level in 40 years.

The unemployment rate rose to 5.4% in October after the biggest monthly percentage increase in more than 15 years. Over 400,000 jobs were cut during the month, as industries such as airlines, travel agencies, hotels and retailers were hit especially hard. Consumers, catching the new pessimistic mood, cut the value of spending by 1.8% in September, the biggest monthly drop since January 1987. The National Association of Purchasing Management's manufacturing index sank to 39.8 in October from a month earlier, its lowest level since February 1991.

Sounding a rare note of optimism, American stockmarkets surged, with the Dow Jones index rising by 5.3% and the Nasdaq up by 8.7% over the week.

The outlook for the **euro area** worsened, as the EU'S business and consumer survey fell to 99.1 in October from 100.1 a month earlier, showing economic sentiment at its worst since 1997. Producer-price inflation slowed to 0.7% in the 12 months to September, down from 6.3% a year ago. The inflation figures remain well below the ECB's 2.0% target ceiling.

In September, **Britain's** industrial production suffered its biggest drop since August 1997, falling by 1.2%.

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Output, demand and jobs

Nov 8th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.1	+ 3.1	– 0.4 Q2	+ 5.8 Q3	7.1 Oct	6.0
Austria	+ 0.2	+ 1.2 Q2	+ 1.5	+ 1.3	+ 1.6 Aug	– 1.1 Jul	3.9 Sep	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.4	+ 1.4	– 2.6 Aug*	+ 2.8 Aug	11.7 Sep*	11.5
Britain	+ 2.4	+ 2.2 Q3	+ 2.2	+ 1.8	– 3.0 Sep	+ 5.9 Sep	5.1 Aug†	5.3
Canada	+ 0.4	+ 2.1 Q2	+ 1.5	+ 1.5	– 3.2 Aug**	+ 3.5 Jun	7.3 Oct	6.9
Denmark	+ 2.4	+ 1.3 Q2	+ 1.2	+ 1.5	– 3.2 Sep	– 0.5 Aug	5.0 Sep	5.5
France	+ 1.1	+ 2.3 Q2	+ 1.9	+ 1.3	+ 1.5 Aug	+ 0.6 Aug	9.1 Sep	9.4
Germany	– 0.1	+ 0.6 Q2	+ 0.7	+ 0.9	– 1.0 Aug	+ 0.4 Aug	9.5 Oct††	9.3
Italy	+ 0.1	+ 2.1 Q2	+ 1.8	+ 1.2	– 1.4 Aug	+ 0.2 Aug	9.4 Jul	10.5
Japan	– 3.2	– 0.7 Q2	– 0.6	– 0.5	–12.7 Sep	– 2.1 Jun	5.3 Sep	4.7
Netherlands	+ 1.5	+ 1.4 Q2	+ 1.3	+ 1.4	– 2.2 Aug	+ 2.7 Jun	2.0 Sep§	2.5
Spain	+ 1.9	+ 2.9 Q2	+ 2.7	+ 2.0	+ 2.8 Aug	na	13.0 Sep	13.8
Sweden	+ 1.3	+ 1.4 Q2	+ 1.7	+ 1.9	– 1.3 Aug	+ 3.0 Aug	4.0 Sep*	4.1
Switzerland	+ 1.7	+ 2.0 Q2	+ 1.5	+ 1.2	+ 4.2 Q2*	+ 3.6 Aug	1.9 Oct*	1.7
United States	– 0.4	+ 0.8 Q3	+ 1.0	+ 0.8	– 5.8 Sep	+ 0.9 Sep	5.4 Oct	3.9
Euro area	+ 0.2	+ 1.7 Q2	+ 1.5	+ 1.2	+ 0.4 Aug	+ 1.8 Aug	8.3 Sep	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 6.7	+ 0.4 Q2	na	na	– 3.5 Sep	+ 3.9 Jul	8.7 Sep*	9.1
Greece	+ 2.8	+ 4.9 Q2	na	na	+ 1.0 Jun*	+ 8.0 Jun	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.2 Jul	1.3
Ireland	na	+13.2 Q1	na	na	+ 5.6 Aug*	+ 2.1 Aug	3.9 Oct	3.7
Luxembourg	na	+ 8.52000	na	na	+ 2.7 Jul*	+ 8.2 Jul	2.4 Aug	2.7
New Zealand	+ 7.4	+ 2.8 Q2	na	na	+ 3.5 Q2*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.5	+ 1.4 Q2	na	na	+ 1.9 Sep*	nil Sep	3.6 Q3	3.5
Portugal	+ 1.6	+ 2.5 Q2	na	na	– 1.2 Aug*	+ 5.2 Jul	3.9 Q2	3.8

*Not seasonally adjusted. † Jun-Aug; claimant count rate 3.1% inSep. §Jul-Sep.**New series. ††EU harmonised rate 8.0% in Oct.

Text refers only to the first 16 countries listed

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Prices and wages

Nov 8th 2001
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q3	+ 6.1	+ 4.2	+ 2.5	+ 2.4	Q3	+ 7.2	+ 3.7	Q2	+ 3.9
Austria	+ 2.6	Sep	+ 3.0	+ 2.5	+ 1.5	– 0.5	Oct	+ 6.0	+ 2.9	Sep	+ 1.9
Belgium	+ 2.4	Oct	+ 3.0	+ 2.5	+ 1.6	+ 0.7	Aug	+ 9.2	+ 3.7	Q3	+ 1.4
Britain	+ 1.7	Sep	+ 3.3	+ 2.1	+ 2.2	– 0.2	Sep	+ 2.5	+ 4.5	Aug	+ 4.0
Canada	+ 2.6	Sep	+ 2.7	+ 2.8	+ 1.9	+ 0.5	Sep	+ 4.0	+ 1.4	Aug	+ 2.6
Denmark	+ 2.3	Sep	+ 2.7	+ 2.3	+ 2.0	+ 0.7	Sep	+ 6.9	+ 4.7	Q2	+ 3.3
France	+ 1.6	Sep	+ 2.2	+ 1.8	+ 1.2	– 0.2	Sep	+ 6.6	+ 4.2	Q2	+ 5.4
Germany	+ 2.0	Oct	+ 2.4	+ 2.5	+ 1.3	– 0.2	Sep	+ 7.2	+ 1.9	Aug*	+ 2.1
Italy	+ 2.5	Oct	+ 2.6	+ 2.7	+ 1.7	+ 0.4	Sep	+ 6.7	+ 2.4	Sep*	+ 1.7
Japan	– 0.8	Sep	– 0.8	– 0.7	– 0.7	– 0.5	Oct	+ 0.3	– 0.4	Sep*	+ 1.5
Netherlands	+ 4.7	Sep	+ 2.9	+ 4.7	+ 2.2	+ 0.5	Sep	+ 8.8	+ 4.3	Aug	+ 3.3
Spain	+ 3.4	Sep	+ 3.7	+ 3.7	+ 2.3	+ 0.6	Sep	+ 5.5	+ 2.9	Q2†	na
Sweden	+ 3.2	Sep	+ 1.3	+ 2.4	+ 1.9	+ 1.1	Sep	+ 4.0	+ 3.2	Aug*	+ 3.3
Switzerland	+ 0.6	Oct	+ 1.3	+ 1.3	+ 1.1	– 0.9	Sep	+ 2.8	+ 1.3	2000	+ 0.3
United States	+ 2.6	Sep	+ 3.5	+ 3.0	+ 1.8	+ 1.6	Sep	+ 3.5	+ 4.1	Oct	+ 3.9
Euro area	+ 2.5	Sep	+ 2.8	+ 2.6	+ 1.6	+ 0.7	Sep	+ 6.3	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.2	Sep	+ 4.2	na	na	– 2.1	Sep	+ 9.6	+ 4.8	Q2*	+ 4.6
Greece	+ 3.6	Sep	+ 3.1	na	na	+ 3.1	Aug	+ 7.9	na		na
Iceland	+ 8.0	Oct	+ 4.2	na	na	+ 6.8	Oct	+ 3.6	+ 9.1	Sep	+ 7.8
Ireland	+ 4.6	Sep	+ 6.2	na	na	+ 2.6	Sep	+ 6.4	+ 8.1	Q1*	+ 6.1
Luxembourg	+ 2.4	Sep	+ 3.4	na	na	– 0.4	Aug	+ 6.9	+ 5.2	Jul*	+ 8.1
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.4	Sep	+ 3.5	na	na	–11.0	Sep	+ 7.4	+ 4.4	Q2*	+ 3.9
Portugal	+ 4.0	Sep	+ 3.4	na	na	– 1.3	Sep	+13.9	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

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Economic forecasts

Nov 8th 2001
From The Economist print edition

The Economist poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2001	2002	2001	2002	2001	2002	2001	2002
Australia	1.8/2.7	2.2/4.1	2.1 (2.3)	3.1 (3.5)	4.2 (4.0)	2.5	−2.8(−2.9)	−3.4 (−3.2)
Austria	1.1/1.9	0.7/1.8	1.5 (1.6)	1.3 (1.6)	2.5	1.5 (1.6)	−2.6	−2.5
Belgium	1.0/2.0	0.6/1.8	1.4 (1.6)	1.4 (1.6)	2.5 (2.6)	1.6 (1.7)	4.2 (4.1)	4.4 (4.3)
Britain	1.9/2.3	0.7/2.4	2.2 (2.0)	1.8 (1.9)	2.1 (2.0)	2.2 (2.1)	−1.9	−2.3 (−2.4)
Canada	1.2/2.3	0.2/2.9	1.5 (1.6)	1.5 (1.8)	2.8	1.9 (2.0)	2.9 (2.6)	1.9
Denmark	0.4/1.5	0.7/2.1	1.2	1.5 (1.8)	2.3 (2.4)	2.0	2.0 (1.8)	1.9 (1.7)
France	1.5/2.0	0.6/1.9	1.9	1.3 (1.6)	1.8 (1.9)	1.2 (1.5)	1.5	1.6 (1.5)
Germany	0.5/0.9	0.3/1.5	0.7 (0.8)	0.9 (1.2)	2.5 (2.4)	1.3 (1.4)	−1.1(−1.0)	−0.7 (−0.9)
Italy	1.5/2.1	0.6/1.9	1.8	1.2 (1.5)	2.7	1.7 (1.8)	−0.2(−0.3)	−0.1 (−0.2)
Japan	−1.3/1.5	−1.8/1.2	−0.6 (−0.5)	−0.5 (−0.4)	−0.7 (−0.6)	−0.7 (−0.6)	2.0	1.8 (1.9)
Netherlands	0.9/2.0	0.7/2.5	1.3 (1.4)	1.4 (1.8)	4.7	2.2	4.1 (4.0)	4.3 (4.1)
Spain	2.5/2.8	1.5/2.5	2.7	2.0 (2.2)	3.7	2.3 (2.4)	−2.6(−2.7)	−2.6 (−2.7)
Sweden	1.1/2.2	0.9/3.1	1.7 (1.8)	1.9 (2.0)	2.4 (2.3)	1.9 (1.8)	2.1 (1.9)	2.2 (2.1)
Switzerland	1.2/1.7	0.1/1.9	1.5 (1.6)	1.2 (1.6)	1.3	1.1	10.7(10.6)	10.9 (10.5)
United States	0.8/1.2	−0.2/2.1	1.0	0.8 (1.0)	3.0 (3.1)	1.8 (2.1)	−4.1(−4.2)	−3.9 (−4.0)
Euro area	1.3/1.7	0.6/1.9	1.5 (1.6)	1.2 (1.5)	2.6	1.6 (1.7)	−0.3	−0.1 (−0.2)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley Dean Witter, Nordbanken, Decision Economics, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and the euro area. The table also shows the highest and lowest projections for economic growth. The previous month's forecasts, where different, are shown in brackets. The panel, in its second forecast since September 11th, has again reduced all its growth forecasts for 2002. In America, GDP growth of a meagre 0.8% is now expected in 2002, down from 1.0% predicted last month. Euro-area GDP is expected to grow by 1.2% in 2002, down from 1.5%. Japan's misery is expected to worsen slightly, with GDP expected to contract by 0.5% in 2002. The sunniest spot is Australia, where our panel expects GDP growth of a healthy 3.1% next year.

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Money and interest rates

Nov 8th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 7th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.1	+ 9.9	Sep	4.22	6.38	3.83	5.07	6.15	5.43
Britain	+ 6.3	+ 8.0	Sep	4.00	6.06	3.93	4.34	5.17	5.69
Canada	+10.4	+ 4.5	Sep	2.20	5.68	2.65	4.81	5.87	6.73
Denmark	+ 3.7	+ 2.9	Sep	3.75	5.55	3.50	4.43	5.48	7.00
Japan	+11.7	+ 3.6	Oct	0.02	0.47	0.05	1.28	1.82	1.40
Sweden	+ 5.9	+ 3.1	Sep	3.57	3.98	3.66	4.70	5.12	4.70
Switzerland	+ 1.7	+ 3.2	Sep	2.04	3.50	1.98	2.81	3.81	4.00
United States	+ 7.5	+11.9	Sep	2.02	6.50	2.32	4.20	5.86	6.40
Euro area†	+ 5.2	+ 7.6	Sep	3.37	5.17	2.95	4.22	5.18	5.01

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.79%, Japan No.234 1.28%. Central bank rates: US fed funds 2.00%, ECB refinancing 3.75%, BOJ overnight call 0.002%, BOE repo 4.50%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 8th 2001
From The Economist print edition

1995=100

	Oct 30th	Nov 6th*	% change on one month	% change on one year
Dollar index				
All items	63.0	63.0	– 0.3	–11.7
Food	66.0	66.0	+ 1.1	– 6.6
Industrials				
All	58.8	58.9	– 2.5	–18.4
Nfa†	55.7	56.7	– 2.1	–15.0
Metals	61.4	60.8	– 2.7	–21.0
Sterling index				
All items	68.2	68.1	+ 0.2	–13.4
Euro index				
All items	91.1	92.4	+ 2.0	–15.3
Yen index				
All items	81.5	81.1	+ 0.4	– 0.2
Gold				
$ per oz	280.15	279.30	– 3.4	+ 5.5
West Texas Intermediate				
$ per barrel	21.85	19.75	–12.2	–40.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

Nov 8th 2001
From The Economist print edition

Market indices

	Nov 7th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,190.4	3,425.2	2,867.4	+ 0.2	– 6.9	+ 1.1	– 6.2
Austria (ATX)	1,046.0	1,245.8	1,014.3	+ 1.2	–39.8	– 2.5	– 6.6
Belgium (Bel 20)	2,690.5	3,030.4	2,322.6	+ 3.3	–26.9	–11.0	–14.8
Britain (FTSE 100)	5,216.3	6,334.5	4,433.7	+ 3.5	–24.7	–16.2	–17.8
Canada (Toronto Composite)	7,147.3	9,348.4	6,513.1	+ 3.8	–37.2	–20.0	–24.5
Denmark (KBX)	219.7	294.3	197.8	+ 0.9	–27.2	–17.0	–20.3
France (SBF 250)	2,871.0	3,820.2	2,335.3	+ 3.3	–34.6	–23.9	–27.1
(CAC 40)	4,493.3	5,998.5	3,652.9	+ 3.5	–35.1	–24.2	–27.4
Germany (Xetra DAX)	4,860.7	6,795.1	3,787.2	+ 6.6	–39.7	–24.4	–27.6
Italy (BCI)	1,361.2	1,948.4	1,082.9	+ 1.6	–37.6	–29.0	–31.9
Japan (Nikkei 225)	10,285.0	14,529.4	9,504.4	– 0.8	–73.6	–25.4	–29.6
(Topix)	1,038.5	1,441.0	863.4	– 2.0	–64.0	–19.1	–23.7
Netherlands (AEX)	490.2	642.3	396.2	+ 6.5	–30.1	–23.1	–26.3
Spain (Madrid SE)	796.3	963.9	648.6	+ 4.3	–30.5	– 9.6	–13.4
Sweden (Affarsvarlden Gen)	212.8	293.1	177.5	+ 4.5	–46.8	–23.4	–31.0
Switzerland (Swiss Market)	6,251.3	8,135.4	5,110.2	+ 2.8	–25.7	–23.2	–23.8
United States (DJIA)	9,554.4	11,337.9	8,235.8	+ 5.3	–18.5	–11.4	–11.4
(S&P 500)	1,115.7	1,373.7	965.8	+ 5.4	–27.0	–15.5	–15.5
(Nasdaq Comp)	1,837.5	2,859.2	1,423.2	+ 8.7	–63.6	–25.6	–25.6
Europe (FTSE Eurotop 300)*	1,226.2	1,545.5	998.9	+ 4.2	–28.1	–20.0	–23.4
Euro area (FTSE Ebloc 100)*	1,062.8	1,404.1	843.6	+ 4.5	–31.5	–23.7	–26.9
World (MSCI)†	981.6	1,249.2	856.6	+ 4.1	–32.2	na	–19.6
World bond market (Salomon)‡	461.7	458.1	420.6	+ 0.9	+ 0.4	na	+ 4.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Nov 8th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Nov 7th	Exchange rate trade-weighted† year ago	Currency units per $ Nov 7th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.3 Sep	− 9.9 Q2	− 2.8	− 3.4	71.6	71.6	1.94	1.90	2.84	1.75	1.60	0.1
Austria	− 5.2 Jul	− 4.2 Aug	− 2.6	− 2.5	100.0	99.0	15.3	16.1	22.4	13.8	12.6	-0.6
Belgium	+ 11.7 Aug	+ 8.9 Jun	+ 4.2	+ 4.4	98.9	97.4	44.8	47.1	65.7	40.4	37.0	0.7
Britain	− 47.4 Aug	− 19.2 Q2	− 1.9	− 2.3	107.2	107.0	0.68	0.70	–	0.61	0.56	1.2
Canada	+ 46.2 Aug	+ 25.5 Q2	+ 2.9	+ 1.9	75.4	77.8	1.59	1.54	2.33	1.43	1.31	2.6
Denmark	+ 7.0 Aug	+ 6.0 Aug	+ 2.0	+ 1.9	102.1	99.5	8.28	8.70	12.1	7.46	6.84	2.9
France	+ 2.0 Aug	+ 20.3 Aug	+ 1.5	+ 1.6	101.4	99.9	7.29	7.66	10.7	6.57	6.02	-0.5
Germany	+ 64.1 Aug	− 18.8 Aug	− 1.1	− 0.7	98.4	96.3	2.17	2.28	3.18	1.96	1.80	-1.7
Italy	+ 3.0 Aug	− 1.5 Jul	− 0.2	− 0.1	72.4	71.3	2,152	2,260	3,152	1,939	1,778	-1.3
Japan	+ 81.0 Aug	+ 89.3 Aug	+ 2.0	+ 1.8	138.8	159.1	121	107	177	109	–	-6.3
Netherlands	+ 18.7 Aug	+ 13.7 Q2	+ 4.1	+ 4.3	97.7	96.1	2.45	2.57	3.59	2.21	2.02	1.3
Spain	− 38.2 Aug	− 16.6 Jul	− 2.6	− 2.6	74.1	73.1	185	194	271	167	153	nil
Sweden	+ 12.2 Sep	+ 6.1 Aug	+ 2.1	+ 2.2	74.0	80.1	10.48	9.99	15.4	9.44	8.66	3.6
Switzerland	+ 0.3 Sep	+ 27.9 Q2	+10.7	+10.9	112.1	106.2	1.63	1.78	2.39	1.47	1.35	na
United States	−448.0 Aug	−449.9 Q2	− 4.1	− 3.9	118.7	115.7	–	–	1.46	0.90	0.83	2.1
Euro area	+ 14.6 Aug	− 37.4 Aug	− 0.3	− 0.1	78.4	75.7	1.11	1.17	1.63	–	0.92	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.5 Aug	+ 8.4 Aug	na	na	78.3	75.9	6.66	6.94	9.76	6.00	5.50	5.3
Greece	− 7.4 Jun	− 7.3 Jun	na	na	57.4	56.6	382	397	559	344	315	nil
Iceland	− 0.3 Sep	− 0.9 Q1	na	na	na	na	105	87.0	153	94.3	86.5	2.4
Ireland	+ 30.8 Aug	− 1.5 Q2	na	na	87.1	85.0	0.88	0.92	1.29	0.79	0.73	4.5
Luxembourg	− 3.3 Aug	+ 1.2 Q2	na	na	98.9	97.4	45.2	47.1	66.2	40.7	37.3	3.6
New Zealand	+ 0.4 Sep	− 1.9 Q2	na	na	79.6	73.2	2.39	2.51	3.50	2.15	1.98	1.0
Norway	+ 27.3 Sep	+ 26.0 Aug	na	na	96.7	93.3	8.91	9.30	13.0	8.02	7.36	15.3
Portugal	− 13.8 Jul	− 9.1 Aug	na	na	89.2	88.1	225	234	329	202	186	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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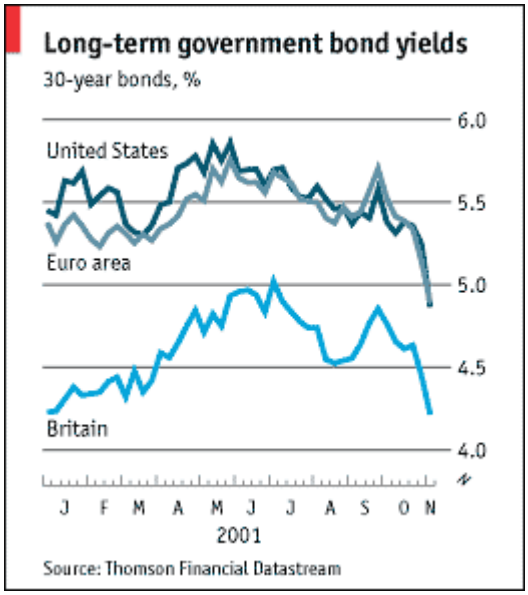
Long-term government bond yields

Nov 8th 2001
From The Economist print edition

A worldwide buying frenzy has driven down yields on long-term government debt ever since the American Treasury announced last month that it would stop issuing 30-year bonds.



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Overview

Nov 8th 2001
From The Economist print edition

All eyes remain focused on **Argentina**, where the government began a debt-swap programme with its domestic bondholders. Fitch, a rating agency, said it would consider the move a “default event”. Standard & Poor's termed it a “selective default”. Moody's waited for more details to emerge. Meanwhile, the data continue to disappoint. Industrial production fell by 7.4% in the year to September. Deflation accelerated, as consumer prices fell by 1.7% in the 12 months to October, compared with the 1.1% drop in the year to September.

Deflation is not a problem elsewhere in Latin America. **Chile, Colombia** and **Venezuela** chalked up consumer-price inflation of 3.4%, 8.0% and 12.3%, respectively, in the year to October.

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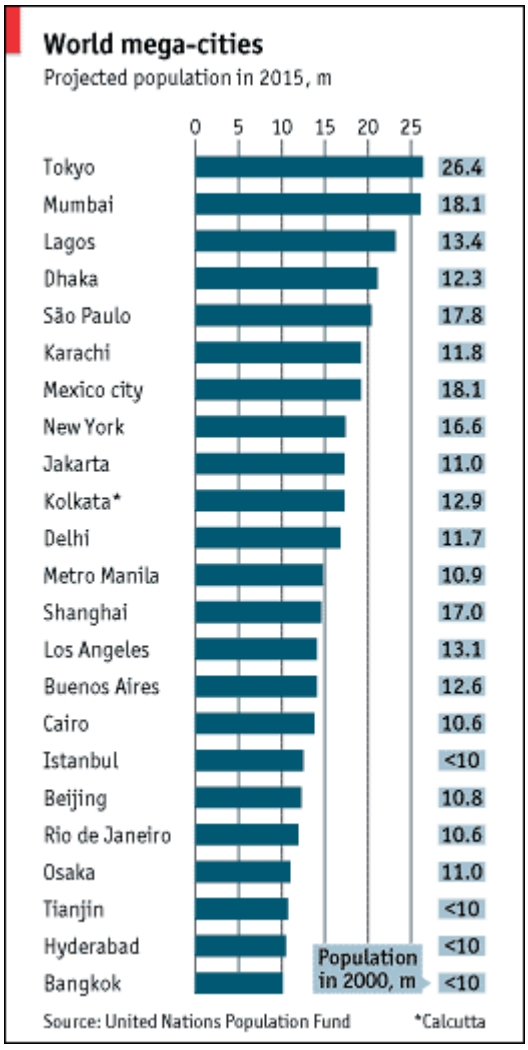
World mega-cities

Nov 8th 2001
From The Economist print edition

Roughly 2.8 billion people live in cities, according to *The State of World Population 2001*, a new report from the United Nations Population Fund. By 2015, that number will have risen to 3.9 billion, nearly three-quarters of them in the developing world. In 2015, there will be 23 mega-cities—those with 10m or more residents—compared with only five in 1975. Big cities often have big problems with pollution, water scarcity and poverty, so better planning will be vital in this new urban world.



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Economy

Nov 8th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 9.5	Sep	– 0.1	Sep	+18.6	Sep	+20.5	2000	193.2	Aug
Hong Kong	+ 0.5	Q2	– 0.1	Q2	– 1.2	Sep	–12.3	Sep	+ 8.2	Q2	113.1	Oct
India	+ 4.4	Q2	+ 1.8	Aug	+ 5.2	Aug	– 6.1	Sep	– 0.9	Q2	42.0	Sep
Indonesia	+ 3.5	Q2	+ 7.5	Q1	+12.5	Oct	+24.6	Sep	+ 6.3	Q1	27.8	Aug
Malaysia	+ 0.5	Q2	– 9.7	Sep	+ 1.4	Sep	+15.4	Sep	+ 7.5	Q2	25.4	Sep
Philippines	+ 3.3	Q2	+ 7.8	Aug	+ 5.4	Oct	+ 3.7	Aug	+ 6.0	Jul	12.2	Aug
Singapore	– 5.6	Q3	–22.3	Sep	+ 0.5	Sep	+ 4.5	Sep	+22.6	Q2	75.4	Sep
South Korea	+ 2.7	Q2	+ 5.1	Sep	+ 3.6	Oct	+11.1	Oct	+11.1	Sep	100.0	Sep
Taiwan	– 2.4	Q2	–14.1	Sep	+ 1.0	Oct	+14.1	Oct	+14.1	Q2	115.2	Sep
Thailand	+ 1.9	Q2	– 1.8	Sep	+ 1.4	Oct	+ 2.6	Sep	+ 6.4	Sep	31.9	Sep
Argentina	– 0.5	Q2	– 7.4	Sep	– 1.7	Oct	+ 4.1	Sep	– 8.4	Q2	20.6	Sep
Brazil	+ 0.8	Q2	– 1.9	Sep	+ 7.3	Sep	+ 0.7	Oct	–26.3	Sep	40.1	Sep
Chile	+ 3.4	Q2	+ 0.1	Sep	+ 3.4	Oct	+ 1.6	Sep	– 1.6	Q2	14.4	Sep
Colombia	+ 1.6	Q2	– 3.2	Aug	+ 8.0	Oct	+ 0.9	Aug	– 0.7	Q2	9.5	Jul
Mexico	nil	Q2	– 5.4	Aug	+ 6.1	Sep	– 9.3	Sep	–17.5	Q2	42.8	Sep
Peru	+ 2.3	Sep	– 3.3	Aug	+ 0.7	Oct	– 0.2	Aug	– 1.4	Q2	8.4	Sep
Venezuela	+ 2.9	Q2	+ 3.2	Aug	+12.3	Oct	+15.6	Q2‡	+11.1	Q2	8.6	Sep
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	Aug	– 8.8	Jul	nil	Q2	13.1	Jul
Israel	+ 1.4	Q2	–10.5	Aug	+ 2.5	Sep	– 7.6	Sep	– 1.4	Q2	23.8	Oct
South Africa	+ 2.5	Q2	+ 0.5	Sep	+ 4.4	Sep	+ 4.6	Sep	+ 0.4	Q2	6.0	Sep
Turkey	– 9.3	Q2	–10.1	Aug	+66.5	Oct	–17.1	Aug	– 3.1	Jul	18.8	Aug
Czech Republic	+ 3.9	Q2	+ 1.1	Sep	+ 4.4	Oct	– 3.3	Sep	– 2.7	Q2	13.5	Sep
Hungary	+ 4.0	Q2	– 3.7	Sep	+ 8.0	Sep	– 2.1	Sep	– 1.1	Sep	12.0	Sep
Poland	+ 0.9	Q2	– 3.8	Sep	+ 4.3	Sep	– 9.6	Sep	– 6.0	Sep	27.3	Sep
Russia	+ 5.1	Q2	+ 3.8	Sep	+20.1	Sep	+57.7	Aug	+44.6	Q2	34.0	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+10.2	Jun	+ 2.9	Sep	– 1.4	Aug	+ 0.3	2001†	2.2	Sep
Saudi Arabia	+ 4.5	2000§	na		– 0.5	Sep	+50.9	2000	+15.6	2000	17.2	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Nov 8th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 7th		Dec 31st 2000	
	Nov 7th	year ago	Nov 7th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.1	na	1,661.9	−5.7	−24.2	−24.2
Hong Kong	7.80	7.80	11.4	1.90	10,269.8	+1.9	−32.0	−32.0
India	48.0	46.7	70.3	6.71	3,013.9	+0.8	−24.1	−26.2
Indonesia	10,638	9,198	15,580	17.91	377.5	−1.6	−9.3	−17.5
Malaysia	3.80	3.80	5.57	3.30	592.3	−1.3	−12.9	−12.9
Philippines	51.9	50.2	76.0	15.25	988.8	−0.5	−33.8	−36.2
Singapore	1.81	1.74	2.66	0.77	1,328.5	−2.9	−31.1	−34.1
South Korea	1,287	1,135	1,885	4.38	562.0	+4.5	+11.4	+9.5
Taiwan	34.5	32.1	50.5	2.85	4,158.2	+6.5	−12.3	−16.0
Thailand	44.6	43.6	65.4	2.94	265.2	−3.6	−1.5	−4.3
Argentina	1.00	1.00	1.46	112.90**	236.9	+5.4	−43.2	−43.2
Brazil	2.60	1.96	3.81	19.05	12,615.8	+11.0	−19.1	−39.4
Chile	702	575	1,028	3.89*	5,296.6	+2.2	+8.8	−11.1
Colombia	2,307	2,126	3,378	11.44	778.2	−4.4	na	na
Mexico	9.21	9.61	13.5	7.28	5,638.0	+1.8	−0.3	+4.1
Peru	3.45	3.52	5.1	4.00	1,146.6	+0.6	−5.1	−3.0
Venezuela	744	695	1,089	11.00	6,438.1	−3.8	−5.2	−10.8
Egypt	4.27	3.78	6.25	8.47	5,586.4	+0.2	−27.1	−33.5
Israel	4.26	4.12	6.23	4.11	377.2	+2.4	−23.7	−27.5
South Africa	9.55	7.66	14.0	9.12	8,695.7	+1.8	+4.4	−17.2
Turkey	1,564,000	681,640	2,290,634	57.00	10,363.4	+5.2	+9.8	−52.9
Czech Republic	37.2	40.4	54.4	5.05	386.5	+3.0	−19.2	−18.2
Hungary	279	308	409	10.65	6,882.7	+1.6	−12.3	−11.4
Poland	4.07	4.57	5.96	13.86	13,539.7	−1.4	−24.1	−22.9
Russia	29.7	27.8	43.6	25.00	207.4†	+1.6	+50.2	+44.7
EMF (MSCI)‡	1.00	1.00	1.46	na	275.3	+3.2	na	−17.5
EMBI+§	1.00	1.00	1.46	na	204.1	+1.6	na	+1.1

*Inflation adjusted. †In $ terms. Nov 6th. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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